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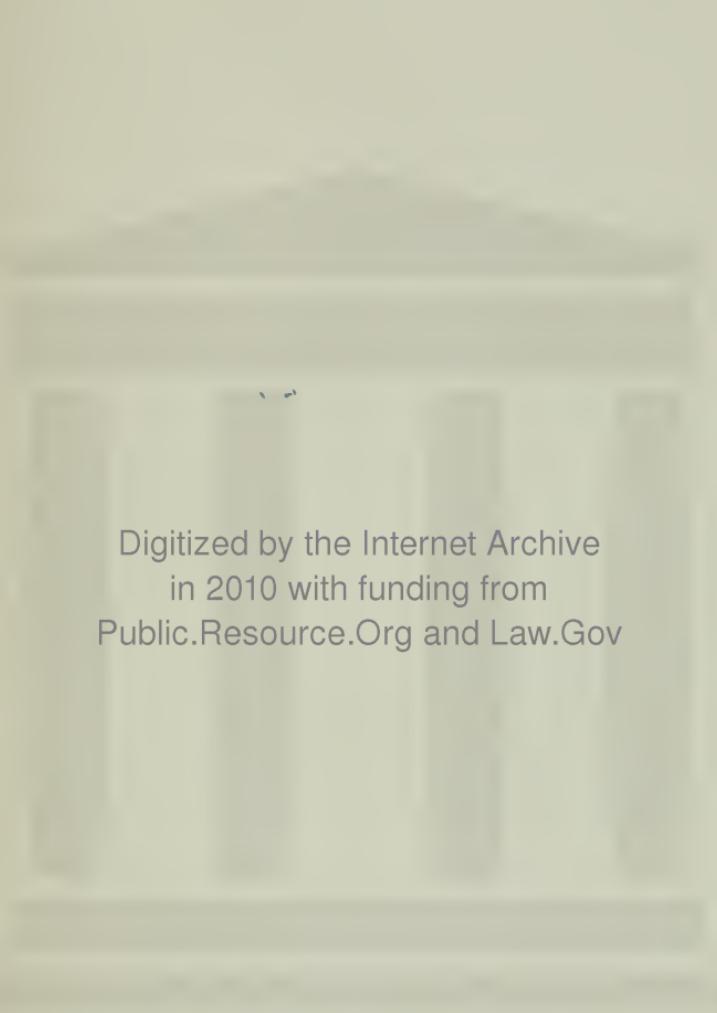
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United States
Court of Appeals
for the Ninth Circuit.

ELI B. CASTLEMAN, MARION V. CASTLEMAN, LOUIS FEUERMAN, JULIUS NOVEMBER, ELEANOR NOVEMBER, and BERNARD REICH,

Appellants,

vs.

HOWARD R. HUGHES, RKO PICTURES CORPORATION, RKO RADIO PICTURES, INC., THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK, ELI B. CASTLEMAN, MARION V. CASTLEMAN and LOUIS FEUERMAN,

Appellees.

Transcript of Record

Appeal from the United States District Court for the
Southern District of California,
Central Division.

FILED
MAR 21 1955

PAUL P. O'BRIEN, CLERK

United States
Court of Appeals
for the Ninth Circuit.

ELI B. CASTLEMAN, MARION V. CASTLEMAN,
LOUIS FEUERMAN, JULIUS NOVEMBER,
ELEANOR NOVEMBER, and
BERNARD REICH,

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vs.

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RKO RADIO PICTURES,
INC., THE CHASE NATIONAL BANK OF
THE CITY OF NEW YORK, ELI B.
CASTLEMAN, MARION V. CASTLEMAN
and LOUIS FEUERMAN,

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INDEX

[Clerk's Note: When deemed likely to be of an important nature, errors or doubtful matters appearing in the original certified record are printed literally in italic; and, likewise, cancelled matter appearing in the original certified record is printed and cancelled herein accordingly. When possible, an omission from the text is indicated by printing in italic the two words between which the omission seems to occur.]

	PAGE
Affidavit of Louis Kipnis, Filed April 15, 1954.	204
Affidavit of Louis Kipnis, Supplemental, Filed July 8, 1954.....	345
Affidavit of Louis Kipnis in Opposition to Mo- tion for Fees and Costs as Against Plaintiffs, Etc.	318
Affidavit of Louis Kipnis in Opposition to Pro- posed Intervention by Julius and Eleanor No- vember	344
Affidavit of Roy W. McDonald in Support of Motion to Dismiss With Prejudice.....	186
Ex. A—Letter, Dated February 7, 1954....	195
B—Motion to Dismiss, Case No. 59422.	200
C—Notice of Court Hearing, Case No. 59422	202
Affidavit of Julius November.....	203
Affidavit of Bernard Reich, Filed July 16, 1954..	353
Ex. C—Daily Time Sheets.....	354
Affidavit of Bernard Reich in Support of Motion to Add and Join Parties Plaintiff	180

INDEX

PAGE

Affidavit of Bernard Reich in Support of Motion for the Appointment of a Special Master Under Rule 53 of the Federal Rules of Civil Procedure	92
Ex. A—Notice of Motion, Case No. 59422...	116
Affidavit of Bernard Reich in Support of Motion to Vacate Order of Dismissal.....	44
Ex. A—Article Appearing in Variety of January 27, 1953.....	56
Affidavit of Bernard Reich in Opposition to Mo- tion to Dismiss.....	242
Appeal:	
Notice of.....	362
Statement of Points on.....	386
Certificate of Clerk.....	381
Complaint, Amended.....	5
Ex. A—Letter, Dated October 17, 1952.....	27
B—Letter, Dated October 30, 1952.....	29
C—Letter, Dated October 31, 1952.....	30
Exhibits, Portions of, Attached to the Affidavit of George Benedict, Jr., Filed in Case No. 59422, Filed May 25, 1954:	
No. 1—Motion, Filed March 19, 1954.....	209
2—Order, Filed March 20, 1954.....	212
3—Findings of Fact and Conclusions of Law, Case No. 59422.....	214

INDEX**PAGE****Exhibits—(Continued):**

4—Order, Filed March 30, 1954.....	226
5—Motion for Final Judgment, Filed April 1, 1954.....	229
6—Final Judgment of Dismissal, Filed April 1, 1954.....	231
7—Final Order, Filed April 15, 1954....	233
Judgment, Final.....	360
Memorandum Granting Motion to Dismiss.....	356

Minutes of the Court:

February 9, 1953.....	3
March 2, 1953.....	4
April 13, 1953.....	34
April 27, 1953.....	36
June 8, 1953.....	39
October 5, 1953.....	71
October 19, 1953.....	118
November 30, 1953.....	121
December 14, 1953.....	122
December 29, 1953.....	124
January 11, 1954.....	124
February 15, 1954.....	173
March 29, 1954.....	181

INDEX	PAGE
Minutes of the Court—(Continued) :	
April 19, 1954.....	205
May 17, 1954.....	207
June 28, 1954.....	317
July 12, 1954.....	351
August 5, 1954.....	355
September 1, 1954.....	357
September 27, 1954.....	359
Motion to Add and Join Parties Plaintiff or for Leave to Intervene.....	175
Motion to Appear as Amicus Curiae.....	58
Affidavit of Raymond A. Cook.....	58
Ex. A—Letter, Dated May 11, 1953....	63
B—Letter, Dated June 9, 1953....	64
Motion for Appointment of a Special Master Pursuant to Rule 53 of Federal Rules of Civil Procedure	91
Motion for Counsel Fees and Costs from the De- fendants Other Than Bank.....	283
Affidavit of Bernard Reich in Support of Motion for Counsel Fees and Costs Against the Defendants.....	284
Ex. A—Daily Time Sheets.....	296
B—Costs Advanced.....	314

INDEX**PAGE**

Motion for Counsel Fees and Costs from the Plaintiff	263
Affidavit of Bernard Reich in Support of Motion for Fees and Costs as Against Plaintiffs	264
Motion to Dismiss Action or in Lieu Thereof to Quash, Etc.....	32
Affidavit of Howard R. Hughes.....	33
Notice of Motion.....	32
Motion to Dismiss as With Prejudice, Filed April 7, 1954.....	184
Motion to Vacate Order of Dismissal.....	42
Notice of Hearing.....	43
Motion to Vacate in Part Order Entered January 12, 1954, and Other Relief.....	134
Affidavit of Bernard Reich in Support of Motion	135
Names and Addresses of Attorneys.....	1
Notice of Appeal.....	362
Notice of Cross-Motion and Motion for Certain Relief, Etc.....	73
Notice of Intention to Apply for Deposition of Howard R. Hughes.....	172
Order on Dismissal, Filed June 26, 1953.....	40
Order Vacating Dismissal of Action, Proposed, Dated June 26, 1953.....	125

INDEX**PAGE**

Order Vacating Order Dismissing Action, Dated January 11, 1954.....	131
Petition, Filed March 11, 1954.....	177
Reasons and Memorandum in Opposition to Notice of Cross-Motion for Certain Relief by Henry Herzbrun, Louis Kipnis and Leo B. Mittleman	80
Re-Notice of Motion for Appointment of Special Master	174
Reply Affidavit of Bernard Reich.....	347
Reply Affidavit of Bernard Reich in Opposition to Motion and Affidavit of Raymond A. Cook as Amicus Curiae.....	66
Statement of Points, Appellants'.....	386
Stipulation, Filed May 25, 1953.....	37
Transcript of Proceedings, October 5, 1953.....	363
Transcript of Proceedings, October 19, 1953....	369
Transcript of Proceedings, July 12, 1954.....	375

NAMES AND ADDRESSES OF ATTORNEYS

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United States District Court, Southern District of California, Central Division

No. 14,848-BH

ELI B. CASTLEMAN, et al.,

vs.

HOWARD R. HUGHES, et al.

MINUTES OF THE COURT—FEB. 9, 1953

Present: The Hon. Ben Harrison,
District Judge.

Counsel for Plaintiffs: No appearance.

Counsel for Defendants: No appearance.

Proceedings: For hearing pursuant to Rule 16
FRCP.

It Is Ordered: that cause is continued to March
2, 1953, 10 a.m., for said hearing.

EDMUND L. SMITH,
Clerk.

By MURRAY E. WIRE,
Deputy Clerk. [25*]

*Page numbering appearing at foot of page of original Certified Transcript of Record.

MINUTES OF THE COURT—MARCH 2, 1953

Present: Hon. Ben Harrison,
District Judge.

Counsel for Plaintiffs: Bernard Reich.

Counsel for Defendants: No appearance.

Proceedings: For hearing pursuant to Rule 16
FRCP. (No return of Service of
Summons.)

It Is Ordered that cause as to said hearing be
stricken from calendar.

EDMUND L. SMITH,

Clerk.

By MURRAY E. WIRE,

Deputy Clerk. [26]

In the United States District Court, Southern
District of California, Central Division

No. 14,848-BH

ELI B. CASTLEMAN and MARION V. CASTLE-
MAN, Doing Business as WOLVERINE TEX-
TILE COMPANY, and LOUIS FEUERMÀN,

Plaintiffs,

vs.

HOWARD R. HUGHES, RKO PICTURES COR-
PORATION, RKO RADIO PICTURES,
INC., and THE CHASE NATIONAL BANK
OF THE CITY OF NEW YORK,

Defendants.

**AMENDED COMPLAINT (STOCKHOLDERS'
DERIVATIVE ACTION) FOR ACCOUNT-
ING AND OTHER EQUITABLE RELIEF**

Plaintiffs for their amended complaint against the defendants, upon information and belief, except as to Paragraphs 1, 2(a), 2(b), 2(f), 2(g) and 5 allege:

As to All Causes of Action

1. Plaintiffs, Eli B. Castleman and Marion V. Castleman, are the beneficial owners of 2500 shares of the capital common stock of RKO Pictures Corporation (hereinafter sometimes referred to as the "Parent Company") and have been such continuously since June, 1952, and at the times of some of the transactions and acts herein complained of, and

plaintiff Louis [27] Feuerman has been a record shareholder of the Parent Company and its predecessor since September, 1931, and at the times of all of the transactions and acts herein complained of.

2. (a) Plaintiffs Eli B. Castleman and Marion V. Castleman are citizens of the State of Michigan.

(b) Plaintiff Louis Feuerman is a citizen of the State of New York.

(c) Defendant Howard R. Hughes purports to be a citizen of the State of Texas but resides in the State of California.

(d) The Parent Company was organized under the laws of the State of Delaware on November 18, 1950, in accordance with the terms of a Plan of Reorganization, hereinafter more fully described, of Radio-Keith-Orpheum Corporation (hereinafter sometimes referred to as "Old RKO").

(e) RKO Radio Pictures, Inc., was organized under the laws of the State of Delaware on June 7, 1921.

(f) The matter in controversy exceeds the sum or value of \$3,000.00, exclusive of interest and costs, and is between citizens of different states.

(g) Plaintiffs, or at least one of them, was a shareholder at the time of the transactions of which they complain.

(h) This action is not a collusive one to confer on a court of the United States jurisdiction of any

action of which it would not otherwise have jurisdiction.

3. (a) Old RKO had been a holding and not an operating company and its assets consisted principally of capital stocks and obligations of subsidiary and affiliated companies, some of which were engaged in the business of producing or distributing motion pictures and others of which were engaged in the business of exhibiting motion pictures. [28]

(b) Old RKO's principal wholly-owned subsidiaries were RKO Theatres, Inc., and RKO Radio Pictures, Inc., (the latter, hereinafter sometimes referred to as "Radio Pictures").

(c) RKO Theatres, Inc., together with its subsidiaries, owned or controlled substantially all the theatre operating assets and Radio Pictures was engaged in the production and distribution of motion pictures.

(d) The authorized capital stock of Old RKO consisted of 8,000,000 shares of common stock of the par value of \$1.00 of which approximately 3,914,913 shares were outstanding as to the date of the Plan of Reorganization.

4. (a) In antecedent litigation, entitled "United States of America vs. Paramount Pictures, Inc., et al.,," and to which Old RKO was a party defendant, the government sought, among other things, separation of theatre operation from the production and distribution of motion pictures.

(b) While the antitrust litigation was pending, Atlas Corporation owned 929,020 shares of Old RKO, approximately 24% and certain option warrants, approximately 12% of Old RKO.

(c) On May 10, 1948, Atlas Corporation sold to defendant, Howard R. Hughes, said 929,020 shares of Old RKO thereby endowing Hughes with effective and complete power over and control of the business, assets and policies of Old RKO and its subsidiaries.

(d) In the exercise of said power over and control of Old RKO and its subsidiaries Hughes replaced or caused to be replaced the directors and officers of Old RKO and of its principal subsidiaries with persons subservient to him. As dominant stockholder and director of Old RKO and as managing director of production of Radio Pictures: (i) Hughes hired and fired such new personnel; (ii) fixed their salaries; [29] (iii) assigned them to various tasks; (iv) caused them to do his bidding in all matters; and (v) exercised undisputed sway over the affairs of Old RKO, directly or through his aforesaid controlled person.

(e) Thereupon, Hughes caused Old RKO to negotiate with the Department of Justice a "Consent Decree," which was entered in the action aforesaid, and which terminated, as to Old RKO said litigation and provided for the separation of the business of operating theatres from the business of producing and distributing motion pictures.

(f) A Plan of Reorganization designed to effect such separation was formulated to implement said separation of the said businesses by a transfer to one new holding company of all the theatre assets and to another new holding company of all the production and distribution assets and by an exchange of the capital stocks of each of such new holding companies, on a share for share basis, for the outstanding capital stock of Old RKO, as an incident to its dissolution.

(g) The aforesaid Consent Decree required that each new holding company be operated wholly independently of one another and have no common directors, officers, agents or employees and enjoined such companies from thereafter attempting to control or influence each other's business or operating policies.

(h) Hughes, who represented in the Consent Decree that he owned approximately 24% of Old RKO stock, was required to dispose of his stock in either the New Theatre company or the New Picture company to a purchaser who was not a defendant or affiliated with or controlled by any defendant, or to deposit such stock with a voting trustee designated by [30] the court.

(i) In compliance with the Consent Decree, Hughes notified the court that he would trustee his New Theatre company stock, subject to his right to sell the stock of either the New Companies as provided in said Consent Decree.

(j) After several extensions, the Court finally

fixed the date of consummation of the aforementioned Plan of Reorganization at not later than December 31, 1950.

(k) The separation of the two businesses, pursuant to the Plan of Reorganization, was effected as of the close of business on December 31, 1950.

(l) The production and distribution assets of Old RKO were taken over by the Parent Company, i.e., RKO Pictures Corporation, and the theatre assets were taken over by RKO Theatres Corporation and in exchange therefor these two new companies each delivered to Old RKO, 3,914,913 shares of their common stocks. Each holder of the common stock of Old RKO outstanding at the close of business on December 31, 1950, became entitled, upon surrender of his certificate, to receive one share of the common stock in each of the new companies for each share of Old RKO common stock surrendered.

(m) Hughes received 929,020 shares of New Theatre company stock (which he trusted pursuant to the Consent Decree) and 929,020 shares of the New Picture company, i.e., the defendant RKO Pictures Corporation, (The Parent Company). Since said date, Hughes increased his holdings of the common stock of the Parent Company until they amounted to 1,013,420 or approximately 30% of its outstanding stock and continued to dominate its affairs in the manner referred to in paragraph 4(d), supra. [31]

(n) In addition, Hughes took the title and posi-

tion of "Managing Director - Production" and exercised the powers inherent therein not on Radio Pictures premises but from an office on the property of Samuel Goldwyn.

(o) The stock of the Parent Company is traded upon the New York Stock Exchange. It is held by approximately 16,000 holders who reside in every state of the United States and in foreign countries.

(p) The Chase National Bank of the City of New York is the stock transfer agent for the common stock of the Parent Company and is merely a nominal party defendant against which plaintiffs seek no affirmative relief.

5. Plaintiffs bring this action derivatively on behalf of the Parent Company and on behalf of Radio Pictures, which is a wholly-owned subsidiary of the Parent Company, on their own behalf and on behalf of all other stockholders of the Parent Company similarly situated who may come in and contribute to the cost of prosecuting the within action.

6. Since January 1, 1951, the Parent Company and its subsidiaries, including Radio Pictures have carried on the picture producing and distributing business of Old RKO under the Hughes regime.

As and for a First Cause of Action

7. At the times herein mentioned between May, 1948, when Hughes first acquired his stock holdings in Old RKO, until September 24, 1952, when he sold

said stockholdings, the directors and officers thereof and of RKO Pictures Corporation were:

Ned E. Depinet	Director, President
Noah Dietrich	Director [32]
Frederick L. Ehrman	Director
L. Lawrence Green.....	Director
Howard R. Hughes	Director
George H. Shaw	Director
J. Miller Walker	Director
Malcolm Kingsberg	Vice-President
Floyd B. Odlum	Chairman of Board
N. Peter Rathvon	Director
Francis J. O'Hara, Jr.	Director

8. At the times herein mentioned and continuing to September 24, 1952, the officers and directors of Old RKO and the Parent Company utterly failed and neglected to perform their official duties as directors and officers; mismanaged the affairs of Old RKO and the Parent Company and did not administer the affairs of said constituent companies in an efficient, careful or prudent manner but on the contrary they negligently suffered and permitted money and assets of said companies to be wasted and dissipated and surrendered their independence and judgments to Howard Hughes, placed themselves in positions of divided loyalties in cases where the interests of RKO were in conflict with those of Hughes' owned or controlled companies in contractual relations between them in all of which they aided, abetted and assisted Hughes to the loss, damage and detriment of Old RKO and the Parent Company and to the profit,

gain and advantage of Hughes and his owned or controlled private enterprises.

9. (a) Prior to his acquisition of the Old RKO stock and continuing to date, Hughes has been connected with Hughes Tool Company of Texas, a multimillion dollar enterprise which manufactures oil-well tools, has an aircraft division and a motion picture division. In addition, Hughes had been [33] engaged in building a huge flying boat (title to which is in the Reconstruction Finance Corporation).

(b) Moreover, as a pilot and aviation enthusiast Hughes frequently engaged in speed trials and personally handled the controls of his experimental planes and devotes considerable of his time to these exploits.

10. (a) When Hughes took over the Atlas holdings in Old RKO he continued to carry on his multifarious activities and though he took the title "Managing Director - Production," failed to come on to the RKO studio lot and maintained his office on the Samuel Goldwyn lot, a mile away.

(b) Hughes interfered in the production activities of the RKO Radio Pictures subsidiary of which Dore Schary was then production chief. He caused the cancellation of four or more scheduled feature productions on one of which the sets had already been built. He caused Dore Schary to leave RKO and without setting foot on the lot, relegated operation of the motion picture subsidiary to a three-man

interim executive committee consisting of persons who were not directors of Old RKO and who had never been elected by RKO's stockholders.

(c) On or about August 18, 1948, Hughes caused Radio Pictures improvidently to purchase from himself (through Hughes Tool Company) certain motion picture assets consisting of distribution rights on one completed feature picture, reissue and remake rights on ten additional completed feature pictures, certain motion picture stories and scripts, personal service contracts with three artists; certain motion picture production equipment, stock film, music rights and motion picture titles.

(d) In order to give an appearance of arm's length bargaining and to becloud the fact that Hughes was [34] sitting on both sides of the negotiating table, the contract of sale contained references to the required payment of a "fair price" but negated the effect thereof by subjecting the same to the required approval by respective boards of directors of both companies.

(e) Hughes caused advances to be made to outside producers running to many millions of dollars under terms which provided for recovery only from the proceeds of distribution of said productions. Said advances were made with reckless abandon at Hughes' direction and resulted in losses during the times hereinmentioned of upwards of one million dollars per year. The amount of \$1,296,000 is set forth as the amount of unrecoverable advances in the Parent Company's latest balance sheet.

(f) Hughes conducted the affairs of the defendants RKO as if he owned and controlled all of their outstanding stock and as his private business.

(g) Hughes disregarded and ignored his duties as a director of said defendants by failing to attend meetings of the Board of Directors, except on rare occasions.

(h) Hughes failed to administer the affairs of the said defendants in an efficient, careful, prudent or businesslike manner; but on the contrary (i) recklessly and negligently suffered and permitted money and assets of the said defendants to be squandered, wasted and dissipated; (ii) was unavailable and delayed approval to both major and minor details which he himself ordered must await his approval, and (iii) interfered with normal and regular production schedules and increased production costs, and also laid off and fired key personnel and virtually closed down the studio, all pursuant to arbitrary, reckless, negligent and erratic behavior, [35] actions and decisions, and because of personal pique, whim and caprice.

(i) In the instance of the motion picture *The Robe*, Hughes interfered and prevented its production because he was not interested in religious pictures. Subsequently, and within the past two years, pursuant to settlement, the picture company assigned and transferred its rights to produce and distribute the picture to Twentieth Century-Fox Film Corporation, at a loss and damage to the said

defendants of its investment and prospective profits of some two or more million dollars.

(j) Hughes has used the funds and property of the said defendants for his own personal purposes, uses and benefit, and to the detriment, disadvantage and damage of the said defendants.

(k) Hughes directly and indirectly favored and benefited third persons out of funds, assets and property of the said defendants for favors, benefits and advantages rendered to him personally by said third persons.

(l) Hughes has caused the said defendants to employ or contract with artists, groups and companies of artists, and other personnel at great expense, the services of which artists, groups and companies of artists and other personnel were not actually utilized, or so infrequently utilized as to unnecessarily and improperly cost and damage said defendants by hundreds of thousands of dollars.

(m) Hughes, in connection with artists under contract to him personally or to the said companies owned and/or controlled by him, dealt with himself to the loss, damage and detriment of the said defendants and to the profit, gain and advantage of Hughes and his said owned or controlled companies.

(n) Hughes caused the said defendants to build up and expend substantial sums of money on artists under contract [36] to him personally or to companies owned and/or controlled by him outside of

RKO Enterprises, to the loss, damage and detriment of the said defendants.

(o) Hughes arbitrarily and out of personal pique, caprice and whim caused the said defendants to breach contracts with third persons and companies and/or assert unmeritorious claims and defenses against such third persons and companies at an unnecessary cost to the picture company of hundreds of thousands of dollars.

(p) Hughes caused said defendants to purchase assets, real and personal, of dubious, little or no value from artists at substantial cost to the said defendants in order to induce said artists to contract with the said defendants and at salaries and emoluments not reflecting the true cost to the said defendants, to their loss, damage and detriment.

11. By reason of the foregoing Radio Pictures and the Parent Company have sustained loss and damage and Hughes and his private enterprises have profited, in exact amounts unknown to plaintiffs, and which can be ascertained only upon an accounting in this action. Moreover, some of the acts and transactions herein alleged, constituting dealings between controlling shareholders and their nominee-directors and officers on the one hand, with their cestui que trustent companies, on the other, require the scrutiny by and intervention of this Court of equity to compel an accounting with respect thereto.

12. Plaintiffs have no adequate remedy at law.

As and for a Second Cause of Action

13. Plaintiffs repeat and reallege paragraphs "1" through "12" hereof. [37]

14. (a) The Parent Company and subsidiary companies according to its last published consolidated balance sheet had indicated total assets of \$52,540,408.

(b) Its inventories, which include released productions, at cost, less amortization; completed productions, not released, at cost; productions in progress and charges to future productions, at cost, supplies, story rights and continuities were carried at close to \$30,000,000.

(c) Film rentals and sales, as last reported in the Parent Company's profit and loss statement provided a revenue of \$57,000,000 before expenses.

(d) The Parent Company in the name of Radio Pictures owns certain motion picture producing studios located in Los Angeles and Culver City, California, comprising 28.5 acres, containing 26 stages having approximately 328,000 square feet of floor space, as well as many varied buildings used for the storage of equipment and maintenance facilities and for general offices. Also two tracts of land in Culver City (one adjacent to the Culver City studio) comprising approximately 88 acres. Of the land adjacent to the studio 28 acres are used principally for the production of exterior scenes in motion pictures, the balance being vacant. Another tract of land in the Encino section of Los Angeles, comprising ap-

proximately 89 acres, is used mainly for the production of exterior scenes in motion pictures.

(e) Radio Pictures maintains 32 film exchanges in principal cities of the United States and Canada for the sale and distribution of motion pictures.

(f) Radio Pictures distributes feature and short subject motion pictures produced by others, such as those by Samuel Goldwyn and Walt Disney. [38]

(g) Over the years there had accumulated in the Radio Pictures library approximately 600 feature pictures which in addition to the residual value inherent therein, absent television, had an enormous value to the Parent Company because of their potential use as television material.

15. (a) Just prior to June 4th, 1952, the date of the Annual Meeting of Stockholders of the Parent Company, the Board of Directors of the Parent Company consisted of the following persons:

Howard R. Hughes

Ned Depinet

Noah Dietrich

Francis J. O'Hara

J. Miller Walker.

(b) Said Board of Directors, in about May, 1952, authorized the preparation, assembling and mailing of a "proxy statement" to accompany a notice of annual meeting to be held on June 4, 1952, in connection with a solicitation of proxies from the Parent Company stockholders for use at said annual meeting.

(c) With respect to the item regarding the election of directors, it was proposed in the proxy statement “ * * * that five directors of the Corporation shall be elected at the Meeting to serve in accordance with the bylaws. * * * ” There then followed the statement that “Under the bylaws, directors are to be elected at each Annual Meeting of the Stockholders to hold office until their successors are respectively elected and qualify, or until they die, resign or are removed.”

(d) The solicitation of proxies by mail and through the use of professional proxy solicitors was made at [39] the expense of the Parent Company and in the light of the situation constituted a waste of corporate funds since the said cost was properly a personal cost of Hughes and his co-directors.

16. At all times herein mentioned, after negotiating the Consent Decree, Hughes had the right to sell the stock of either his new Theatre Company stock or new Picture Company stock even though he had previously elected to Trustee his Theatre Company stock, and, at or about the time of the 1952 annual meeting of the stockholders of the Parent Company, Hughes entertained preliminary negotiations looking toward a sale of his Picture Company stock.

17. No disclosure was made in the proxy soliciting material that while Hughes and his co-directors were soliciting proxies for their election as directors of the Parent Company for the ensuing year, to hold office until their successors are respectively elected, they contemplated surrendering their directorships

should Hughes successfully consummate such negotiations, and to that extent the proxy material was misleading and in contravention of Regulation X-14 of the United States Securities and Exchange Commission promulgated under Section 14 of the Securities and Exchange Act of 1934.

18. Hughes or persons acting on his behalf and a group of persons consisting of Ralph E. Stolkin, A. L. Koolish, Sherrill Corwin, Raymond Ryan and Edward Burke (hereinafter sometimes referred to as the "Chicago Syndicate") engaged in eight weeks of negotiations, commencing at or about the time of the 1952 annual meeting of the Parent Company stockholders for the election of directors, looking toward a transfer of control of the Parent Company and its property and effects by Hughes to the Chicago Syndicate to be achieved through a sale [40] of his Picture Company stock as a requisite, though secondary matter, upon the payment to him, in addition to the market value of his said stock, a substantial premium over and above said market value.

19. That on or about September 24th, 1952, the shares of stock of RKO Pictures Corporation were selling on the New York Stock Exchange at approximately \$4.50 per share.

20. That in the negotiations aforementioned the Chicago Syndicate made it a condition and Hughes acquiesced therein, that all the officers and directors in the Parent Company and its subsidiaries should forthwith resign and that under their bylaw power

to fill vacancies forthwith elect an entirely new directorates elected wholly by the Chicago syndicate, all in advance of payment of the entire purchase price which was to be computed on the basis of market-price for the Hughes stock plus a premium to Hughes of \$3,000,000 over and above said price.

21. Hughes not only failed to make any adequate investigation as to the reputation, standing or experience of the Chicago Syndicate but did not even meet them personally until they were present to sign the documents which transferred control to them.

22. On or about September 24, 1952, Hughes consummated the sale of control of the Parent Company and its subsidiaries by his own resignation and the successive resignations of the directors elected with him in June of 1952, which was followed by the election of a new member of the Board of the Parent Company of a person belonging to or named by the Chicago Syndicate and for the transfer of such control Hughes earned a profit of approximately \$3,000,000. In addition, Hughes received the prevailing market price for his stock which he [41] could not have obtained were said 1,103,000 shares offered on the New York Stock Exchange in the regular course.

23. The persons installed as directors of the Parent Company and its subsidiaries by Hughes and his co-directors were Ralph E. Stolkin, A. L. Koolish, Edward Burke, Raymond Ryan and Arnold M.

Grant, among others, who were part of or named by the Chicago Syndicate.

24. Upon their installation as directors of the Parent Company, the Chicago Syndicate chose Arnold M. Grant to be Chairman of the Board, under a five-year contract, at \$2,000 per week. They elected themselves to various executive offices at undisclosed salaries and took over management and control of the Fifty Million Dollar RKO enterprise and its assets aforementioned, with plenary power to deal with the same.

25. By exacting and receiving a price for his stock, which exceeded its market value by about \$3,000,000, Hughes in violation of his fiduciary duties to the Parent Company sold his position as a director and officer of the Parent Company and the similar positions of his co-directors and co-officers; traded upon the Parent Company's superior bargaining position, and appropriated to his own use a corporate asset for official action by him and his co-directors.

26. By reason of the foregoing, Hughes is accountable to the Parent Company for his profits and for its losses.

As to Both Causes of Action

27. (a) Subsequent to the assumption of control by the Chicago Syndicate of the said defendants adverse publicity concerning at least two of the directors, Stolkin and Koolish, [42] questioning

their character and qualifications, was broadcast and published with the result that three of the five directors, Stolkin, Koolish and Gorman (the last name being the nominee of Raymond Ryan) resigned, leaving only Grant and Burke in caretaker-control.

(b) Thereafter the Chicago Syndicate turned back their shares of the stock and control of the said defendants to Hughes at a loss to them and a profit to Hughes of a sum in excess of a million dollars.

(c) During the period of control of the Chicago Syndicate, given to it by Hughes, the said defendants were virtually at a standstill, and because of the confusion and the failure of the said defendants to have active management, and by reason of the acts of Hughes, as aforesaid, the said defendants lost and were damaged in excess of two million dollars.

28. Heretofore, on October 17th, 1952, a written demand was made on behalf of the plaintiffs Castleman upon RKO Pictures Corporation to bring this suit against Hughes. A copy of said written demand is attached hereto as Exhibit "A." Two weeks later an answer to the said demand was made by a law firm, retained as "independent counsel" by RKO's "Present management." A copy of said answer is annexed hereto as Exhibit "B." The reply to Exhibit "B" is hereto annexed as Exhibit "C." No further or other demand has been made for the reason that the retainer of the "independent counsel" by the "present management" may be a nullity for the reason that "present management" is legally

impotent to do any corporate act or thing under the Delaware Corporation Law and the Parent Company's bylaws. In any event, it would be unlikely to have "present management" recommend suit against [43] Hughes even if "independent counsel" were to report merit since the "present management" was installed by Hughes and is seeking an \$8,000,000 loan from Hughes and is friendly disposed toward him. Any demand on "present management" to bring suit would be futile.

Wherefore, plaintiffs pray for judgment as follows:

1. That Hughes be ordered to account for any profits, emoluments and gains received by him directly or indirectly from the transactions herein complained of and be ordered to pay over such amounts to the Parent Company or Radio Pictures as their interests may appear.
2. That Hughes be ordered to account for any damages to the Parent Company or Radio Pictures resulting from the transactions herein complained of and be ordered to pay over such amounts to them as their interests may appear.
3. That any and all contracts between the Parent Company and Radio Pictures with Hughes or any of his personal enterprises be declared to be null and void and of no effect and that their recession be decreed and that insofar as any parts thereof remain executory that their performance by the

Parent Company and Radio Pictures be restrained and enjoined.

4. That plaintiffs have such other and further relief as may be just and proper including a temporary receivership of the property of the Parent Company and Radio Pictures for and on behalf of all the stockholders of the Parent Company similarly situated.

5. That plaintiffs be awarded the costs and disbursements of this action, including a fair and reasonable allowance [44] for counsel and accountants fees, and other lawful expenses in connection with the prosecution of this action.

Dated: March 4, 1953.

BERNARD REICH,
LOUIS KIPNIS and
LEO B. MITTELMAN,

By /s/ BERNARD REICH,
Attorneys for Plaintiffs. [45]

EXHIBIT A

Louis Kipnis
111 Broadway
New York 6, New York

October 17, 1952.

RKO Pictures Corporation,
1270 Avenue of the Americas,
New York 20, New York.

Gentlemen:

My clients, Eli B. Castleman and Marion V. Castleman, are the beneficial owners of 2,500 shares of the common capital stock of RKO Pictures Corporation (hereinafter RKO Pictures), some of which is registered in the name of Bennett, Smith & Co. and some of it in the name of Clark, Dodge & Co.

On their behalf, this demand is made upon you to bring suit against Howard R. Hughes, as follows:

(a) For an accounting by him to RKO Pictures of the approximately \$3,000,000 personal profit made by him in the sale of the officerships and directorships in RKO Pictures and of his approximately 30% of RKO Pictures common capital stock;

(See: McClure vs. Law, 161 N.Y. 78

Bosworth vs. Allen, 168 N.Y. 157

Mitchell vs. Dilbeck, 10 Cal. 2d 341

Insuranshares Corp. vs. Northern Fiscal Corp., 35 F.Supp. 22)

- (b) To the extent that all the consideration money has not yet passed, to impress a trust upon the said unpaid balance due to Hughes for the benefit of RKO Pictures;
- (c) To the extent that there have not yet been transferred on the stock books of RKO Pictures the change of [46] ownership of said approximately 30% of the Hughes stock to the purchasers to enjoin the transfer agent, The Chase National Bank of the City of New York, from recording said change of ownership on the transfer books;
- (d) To compel Hughes to account for his official conduct as officer and director of RKO Pictures and of RKO Radio Pictures Inc., in the management and disposition of the funds and property of said corporation; and
- (e) To compel him to pay to RKO Pictures such moneys as have been lost or wasted through his neglect or failure to perform his duties as such director and officer.

(See: *Bosworth vs. Allen, supra.*)

Please let me have your prompt reply since my clients consider the plight of the company extremely serious. In the event I do not have your immediate assurance that you will forthwith commence such a suit, I will continue the present suit of my clients to achieve such goals derivatively for RKO Pictures.

Very truly yours,

/s/ LOUIS KIPNIS. [47]

EXHIBIT B

Cravath, Swaine & Moore
15 Broad Street
New York 5, New York

October 30, 1952.

RKO Pictures Corporation

Dear Sir:

Your letter dated October 17, 1952, addressed to RKO Pictures Corporation, has been referred to us for reply by the Corporation.

As independent counsel to the Corporation, retained by its present management, we have been requested to advise the Corporation, among other things, with respect to the matters referred to in your letter. Until we have completed such investigation as we shall consider necessary in order to advise the Corporation in the premises, and have rendered the requested opinion, the Board of Directors of the Corporation will not be in a position to take action with respect to the demand contained in your letter.

If you have any facts in your possession which, in your opinion, would justify the Corporation bringing suit against Mr. Howard Hughes or any of the other former directors of RKO Pictures Corporation, in respect of the matters referred to in para-

graphs (d) and (e) of your aforesaid letter, we will be pleased to know of them.

Very truly yours,

(Signed)

CRAVATH, SWAINE &
MOORE.

Louis Kipnis, Esq.

111 Broadway
New York 6, N. Y.

AA [48]

EXHIBIT C

Louis Kipnis
111 Broadway
New York 6, New York

October 31, 1952.

Cravath, Swaine & Moore,
15 Broad Street,
New York 5, New York.

re: RKO Pictures Corporation

Gentlemen:

I acknowledge with thanks receipt of your letter dated October 30, 1952, in the above-entitled matter.

You advise me therein that you have been requested to advise the Corporation as independent counsel with respect to the matters referred to in

my letter of October 17 " * * * among other things * * *."

May I request that you advise the corporation to furnish me with the result of any action taken by it in connection with the price agreed to be paid, or paid, for certain motion picture assets sold by Hughes Tool Company to RKO Radio Pictures, a wholly-owned subsidiary of the Corporation, all as described in the Proxy Statement for the Special Meeting of Stockholders to be held July 25, 1950, and concerning which transactions no further information appears to have been furnished to the stockholders.

Similarly will you furnish the same information relative to the motion picture, "The Outlaw."

In view of the fact that you are conducting an investigation, may I suggest that I be permitted to participate within the limitations, of course, of Section 113 of the Stock Corporation Law of the State of New York and Section 29 [49] of the Delaware Corporation Law.

Assuring you of my cooperation, I remain,

Very truly yours,

C: Rko Pictures Corporation
1270 Avenue of the Americas
New York 20, New York

LK:ms

Duly verified.

[Endorsed]: Filed March 4, 1953. [50]

[Title of District Court and Cause.]

NOTICE OF MOTION

To Bernard Reich, 9441 Wilshire Boulevard, Beverly Hills, California, Attorney for Plaintiffs:

Please take notice that the undersigned will bring the above Motion on for hearing before this Court in Courtroom No. 8, Post Office and Court House Building, Los Angeles, California, on the 13th day of April, 1953, at 10:00 a.m., or as soon thereafter as counsel can be heard.

/s/ T. A. SLACK,

Attorney for Defendant,
Howard R. Hughes.

Dated March 25, 1953. [52]

[Title of District Court and Cause.]

MOTION

The defendant, Howard R. Hughes, appearing herein specially and for this purpose only, moves the Court to dismiss the action or in lieu thereof to quash the return of service of summons on this defendant on the following grounds:

- (A) A copy of the summons was not personally served on this defendant.
- (B) A copy of the summons was not left at this defendant's dwelling house or usual place of abode.

(C) The Beverly Hills Hotel in Los Angeles, California, is not the usual residence or place of abode of this defendant and was not on March 6, 1953, the date on which service was attempted on this defendant.

(D) Since long prior to March 6, 1953, and at all times [53] material hereto this defendant has maintained his only residence and usual place of abode in Las Vegas, Nevada, and since establishing his residence in Nevada he has never returned to the State of California.

In support of such Motion, there is attached hereto the affidavit of Howard R. Hughes.

/s/ T. A. SLACK,
Attorney for Defendant,
Howard R. Hughes. [54]

AFFIDAVIT

State of Nevada,
County of Clark—ss.

Before me, the undersigned authority, on this day personally appeared Howard R. Hughes, known to me, who being by me duly sworn did upon oath state as follows:

I became a resident of the State of Nevada long prior to March 6, 1953. Since becoming a resident of Nevada, I have never resided in the State of California nor maintained therein a residence.

dwelling house or place of abode, nor have I authorized any person in California to accept service of summons in my behalf.

/s/ HOWARD R. HUGHES.

Sworn to and subscribed before me this 25th day of March, 1953.

[Seal] /s/ ELAINE LARSEN,
 Notary Public in and for
 Said County and State.

My commission expires June 16, 1956.

[Endorsed]: Filed March 25, 1953. [57]

[Title of District Court and Cause.]

MINUTES OF THE COURT—APRIL 13, 1953

Present: The Hon. Ben Harrison,
District Judge.

Counsel for Plaintiffs: Bernard Reich.

Counsel for Defendants: Guy Knupp for
Deft. RKO Radio Pictures, Inc.

Proceedings:

For hearing (1) motion on behalf of deft. Howard R. Hughes, appearing herein specially, to dismiss this action, or in lieu thereof to quash the return of service of summons on this defendant, pursuant to notice, motion, affidavit of Howard R. Hughes,

and memo. of points and authorities, filed March 25, 1953; (2) motion on behalf of deft. RKO Radio Pictures, Inc., for an order, pursuant to Sec. 834 of the Corporations Code of the State of California, requiring the plaintiffs to furnish security for reasonable expenses, including attorneys' fees, which may be incurred by defendant, in connection with such action, including expenses for which said corporation may become liable pursuant to Sec. 830 of the Corporations Code of the State of Calif., etc., pursuant to notice, motion, affidavit of Roy W. McDonald, and reasons, points, and authorities, filed April 2, 1953.

Attorney Reich makes a statement re continuance of said motions.

Attorney Knupp makes a statement.

It Is Ordered that cause as to hearing on motion (1) on behalf of deft. Howard R. Hughes, etc., is continued to April 27, 1953, 10 a.m.

Court makes a statement and **It Is Ordered** that cause as to hearing on motion (2) on behalf of deft. RKO Radio Pictures, Inc., is continued to June 8, 1953, 10 a.m.

EDMUND L. SMITH,
Clerk;

MURRAY E. WIRE,
Deputy Clerk. [77]

[Title of District Court and Cause.]

MINUTES OF THE COURT—APRIL 27, 1953

Present: The Hon. Ben Harrison,
District Judge.

Counsel for Plaintiffs: Bernard Reich.

Counsel for Defendant Hughes: Raymond
A. Cooke (of Texas), admitted specially
for purpose of this case only, on motion
of Atty. Reich.

Proceedings:

For hearing motion on behalf of deft. Howard R. Hughes, appearing herein specially, to dismiss this action, or, in lieu thereof, to quash the return of service of summons on this defendant, pursuant to notice, motion, affidavit of Howard R. Hughes, and Memo. of points and authorities, filed March 25, 1953.

On motion of Attorney Reich It Is Ordered that Raymond A. Cooke, of Texas, is admitted to practice in this Court for the purpose of this case only.

Attorney Cooke makes a statement and requests a continuance.

Attorney Reich makes a statement and consents to a continuance for hearing said motion.

It Is Ordered that cause is continued to June 8, 1953, 10 a.m., for hearing said motion.

EDMUND L. SMITH,
Clerk;

MURRAY E. WIRE,
Deputy Clerk. [78]

[Title of District Court and Cause.]

STIPULATION

It Is Hereby Stipulated, Consented to and Agreed by and between the attorneys for the plaintiffs and the attorneys for the defendant RKO Radio Pictures, Inc., that the notice of the attorneys for the plaintiffs dated May 11, 1953, to take the deposition of the defendant RKO Radio Pictures, Inc., by Howard R. Hughes on the 28th day of May, 1953, at 10:00 a.m. at Room 214, California Bank Building, 9441 Wilshire Boulevard, Beverly Hills, California, be and the same hereby is adjourned until July 27, 1953, without prejudice to the right of the defendant RKO Radio Pictures, Inc., to move for an [79] order quashing said notice of deposition or, in the alternative, for an order directing that the deposition of the defendant RKO Radio Pictures, Inc., by Howard R. Hughes be taken at the same time and place as the deposition of said Howard R. Hughes in an action pending in the Eighth Judicial District of the State of Nevada, in and for the County of Clark, entitled Eli B. Castleman and Marion V. Castleman, doing business as Wolverine Textile Company, and Louis Feuerman, plaintiffs, against J. Miller Walker, Francis J. O'Hara, Jr.; Howard R. Hughes, Noah Dietrich, Ned E. Depinet, Hughes Tool Company, RKO Pictures Corporation and RKO Radio Pictures, Inc., defendants.

It Is Further Stipulated, Consented to and Agreed by and between such attorneys that the

return day and the submission of the motion heretofore served by the defendant RKO Radio Pictures, Inc., upon the attorneys for the plaintiffs requesting from the Court an order, pursuant to Section 834 of the Corporations Code of the State of California, requiring the plaintiffs to give security for expenses which such moving defendant may incur in this action, be and the same is hereby extended to August 10, 1953.

It Is Further Stipulated, Consented to and Agreed by and between such attorneys that in accordance with Section 834(c) of the Corporations Code of the State of California, prosecution of this action shall be stayed until ten (10) days after the motion for security for expenses has been disposed of and that the time of the defendant RKO Pictures, Inc., to answer or move with respect to the complaint herein be and the same is [80] hereby extended until ten (10) days after such motion has been disposed of.

Dated: May 22, 1953.

By /s/ BERNARD REICH,
LOUIS KIPNIS and
LEO B. MITTELMAN,

By /s/ LOUIS KIPNIS,
Attorneys for Plaintiffs.

MITCHELL, SILBERBERG &
KNUPP,

By /s/ GUY KNUPP;

DONOVAN, LEISURE,
NEWTON & IRVINE,

By /s/ ROY W. McDONALD,
Attorneys for Defendant,
RKO Radio Pictures, Inc.

It Is So Ordered: May 25, 1953.

/s/ BEN HARRISON,
Judge.

[Endorsed]: Filed May 25, 1953. [81]

[Title of District Court and Cause.]

MINUTES OF THE COURT—JUNE 8, 1953

Present: The Hon. Ben Harrison,
District Judge.

Counsel for Plaintiffs: No appearance.

Counsel for Defendants: Raymond A.
Cook (Houston, Texas), of counsel for
deft. Howard R. Hughes.

Proceedings:

For hearing motion on behalf of defendant Howard R. Hughes, appearing specially, to dismiss this action, or in lieu thereof, to quash the return of service of summons on this defendant, pursuant to notice, motion, affidavit of Howard R. Hughes, and memo. of points and authorities, filed March 25, 1953.

Attorney Cook makes a statement.

It Is Ordered that said motion to dismiss is granted; counsel for said deft. Hughes to prepare and serve form of order and present same for signature.

EDMUND L. SMITH,
Clerk;

By MURRAY E. WIRE,
Deputy Clerk. [82]

In the United States District Court, Southern
District of California, Central Division

No. 14,848-BH

ELI B. CASTLEMAN and MARION V. CASTLEMAN, Doing Business as WOLVERINE TEXTILE COMPANY, and LOUIS FEUERMAN,

Plaintiffs,

vs.

HOWARD R. HUGHES, RKO PICTURES CORPORATION, RKO RADIO PICTURES, INC., and THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK,

Defendants.

ORDER

On the 8th day of June, 1953, came on to be heard the motion of defendant, Howard R. Hughes, to

dismiss the action, or in lieu thereof to quash the return of service of summons; and it appearing to the Court by uncontroverted affidavit that the defendant, Howard R. Hughes, became a resident of the State of Nevada long prior to the period material hereto,

It is, therefore, Ordered and Decreed that the return of service of summons as to the defendant, Howard R. Hughes, be and the same is hereby quashed.

It further appearing to the Court by the record in this action that there is another action pending in the State of Nevada [83] in which the same plaintiffs herein are the plaintiffs, and in which additional necessary defendants are joined, with all parties properly before the Court; that such action is being actively prosecuted before that Court; and that the relevant Nevada Rules of Civil Procedure are identical with the Federal Rules of Civil Procedure governing actions of this type,

It is, accordingly, further Ordered and Decreed that this action be, and the same is hereby dismissed without prejudice, the taxable costs of court exclusive of attorneys' fees to be adjudged against the plaintiffs in the within action.

Entered this 26th day of June, 1953.

/s/ BEN HARRISON,

United States District Judge.

Approved as to Form:

/s/ LOUIS KIPNIS,

.....,

HENRY HERZBRUN,

Attorneys for Plaintiffs.

/s/ T. A. SLACK,

/s/ RAYMOND A. COOK,

Attorneys for Defendant,

Howard R. Hughes.

/s/ ROY W. McDONALD,

/s/ GUY KNUPP,

Attorneys for Defendant,

RKO Radio Pictures, Inc.

[Endorsed]: Filed June 26, 1953.

Docketed and entered June 26, 1953. [84]

[Title of District Court and Cause.]

MOTION TO VACATE ORDER OF DISMISSAL
DATED JUNE 26, 1953

Plaintiffs move to vacate the Order of Dismissal dated June 26, 1953, on the following grounds:

1. The Order purports to afford relief beyond that which was applied for by, and is different in kind from the demand in, the motion or motions.
2. The Order purports to be wider in scope and affords relief beyond that which was directed by minute order.

3. The defendants failed to comply with the said minute order in that plaintiffs' attorneys were not served with any proposed order.

4. Defendants did not comply with Local Rule 7(a).

5. Justice requires the vacation of the said [86] Order.

The motion will be based on the following:

1. The records and files of this Court.
2. The Notice of Hearing herein.
3. Plaintiffs' Memorandum of Points and Authorities.
4. An affidavit of Bernard Reich to be filed within the time fixed by the Rules.

Dated: August 11, 1953.

/s/ BERNARD REICH,
Attorney for Plaintiffs. [87]

[Title of District Court and Cause.]

NOTICE OF HEARING

To the Defendants and to Their Attorneys, and to
Louis Kipnis and Leo B. Mittelman, Esqs.:

Please Take Notice that the within Motion will be heard by the above-entitled Court, United States District Judge Ben Harrison, in his courtroom in the Federal Post Office and Court House Building, Los Angeles, California, at 10 a.m., or as soon there-

after as counsel can be heard, on the 5th day of October, 1953.

Dated: August 11, 1953.

/s/ BERNARD REICH,
Attorney for Plaintiffs.

[Endorsed]: Filed August 17, 1953. [88]

[Title of District Court and Cause.]

AFFIDAVIT OF BERNARD REICH IN SUPPORT OF MOTION TO VACATE ORDER OF DISMISSAL MADE JUNE 26, 1953

State of California,
County of Los Angeles—ss.

Bernard Reich, being first duly sworn, deposes and says:

1. I am local attorney of record for the plaintiffs in the above-entitled action.
2. (a) Louis Kipnis and Leo B. Mittelman, whose address is 111 Broadway, New York 6, New York, are New York attorneys who appear with me as attorneys for the plaintiffs, although they are not licensed to practice in the State of California and have not been admitted for the purposes of this case.
(b) Donovan, Leisure, Newton & Irvine of 2 Wall Street, New York 5, New York, have appeared in this action as [96] attorneys for defendant RKO Radio Pictures, Inc.

(c) Thomas A. Slack of 7000 Romaine Street, Hollywood 38, California, and Raymond A. Cook of Texas, have appeared as attorneys for the defendant Howard R. Hughes.

(d) Mitchell, Silberberg & Knupp of Los Angeles have appeared as attorneys for the defendant RKO Radio Pictures, Inc.

3. On Saturday, December 13, 1952, I received a telephone call from New York from Messrs. Kipnis and Mittelman retaining me to file suit in behalf of the plaintiffs. On Monday, December 15, 1952, I filed this suit.

4. Mr. Kipnis had previously filed a similar suit in the Supreme Court of the State of New York and there was pending before New York Supreme Court Justice Henry Clay Greenberg Mr. Kipnis' motion for the appointment of a receiver.

5. On December 26, 1952, I read in the trade papers and learned for the first time that plaintiffs had filed a derivative action in the state court in Las Vegas, Nevada. I was not informed by Messrs. Kipnis and Mittelman of their intentions to file such suit.

6. (a) On January 27, 1953, a local trade paper reported that the motion in New York for the appointment of a receiver had been withdrawn. Attached hereto and marked Exhibit "A" is a true copy of the said article purporting to recite the proceedings before Mr. Justice Greenberg.

(b) The motion for the appointment of a re-

ceiver was withdrawn in New York not only without my consent but without my knowledge or prior consultation.

7. Upon information and belief the original complaint filed here, except for jurisdictional allegations, is identical with the New York and Nevada complaints. However, the amended [97] complaint in this action introduced many additional issues.

8. (a) On or about February 4, 1953, I received a notice from the Court that the action had been placed on the calendar pursuant to Rule 16 for Monday, February 9, 1953.

(b) On February 5, 1953, I wrote to Judge Harrison asking his indulgence until I had an opportunity to confer with New York counsel personally in New York City. I received notice from the clerk that the hearing scheduled for February 9th had been continued to March 2, 1953.

(c) I conferred with New York counsel and it was agreed that the complaint would be amended and service made. I so informed Judge Harrison on March 2, 1953.

9. (a) The amended complaint herein was filed on March 4, 1953, and service was thereafter made on the defendant Howard R. Hughes at the Beverly Hills Hotel and on RKO Radio Pictures, Inc., at its Los Angeles studio. The defendant RKO Pictures Corporation refused to submit to process on the ground that it was not doing business in California.

(b) The defendant RKO Radio Pictures, Inc., was served not only with process but with a Notice of the Taking of the Deposition of its officer and employee, the defendant Howard R. Hughes.

10. With respect to the Nevada action, I learned that Mr. Hughes had submitted himself to the jurisdiction in Nevada as did the defendant RKO Pictures Corporation, notwithstanding it did no more business in the State of Nevada than it did in the State of California. I learned for another [98] thing that Nevada has no security law such as may be available to defendants in the State of California. From the U. S. Marshal I learned that Mr. Hughes had purported to renounce his Beverly Hills residence for Las Vegas, Nevada, apparently between the time this action was filed and the complaint was amended and served at the Beverly Hills Hotel, and shortly before he accepted service of process in the Nevada action.

11. Messrs. Kipnis and Mittelman, by letter and by telephone, importuned me and instructed me to withdraw the Notice of Mr. Hughes' deposition. I told them that the deposition was necessary on the issue of any application for security. They both assured me that no such motion would be made and if made they would consider it an act of bad faith and that I would then be free to notice Mr. Hughes' deposition. I complied with their request; but soon thereafter was served with two sets of motion papers, one in behalf of the defendant Howard R. Hughes to quash the service on him on

the ground that he was not at the time of purported service a resident of Beverly Hills, California, but had removed to Las Vegas, Nevada. The second was a motion in behalf of the defendant RKO Radio Pictures, Inc., for security pursuant to the Corporations Law of the State of California. It is significant that Mr. Hughes' motion to quash does not give the date when he removed to Las Vegas, Nevada.

12. Both motions were made returnable April 13, 1953.

13. On April 3, 1953, I noticed Mr. Hughes' deposition for April 9, 1953, four days before the return date of the defendants' said motions.

14. Again Messrs. Kipnis and Mittelman importuned me to withdraw the notice of Mr. Hughes' deposition. I did so when the defendants agreed to put Hughes' motion to quash process [99] over to April 27, 1953, and RKO's motion for security over to June 8, 1953.

15. The difference between New York counsel and myself at this point was centered on my opinion that I could not resist the motion for security without taking the deposition of Mr. Hughes, and that if I was going to take the deposition of Mr. Hughes I should examine him on all points, including his residence. New York counsel wished me to default on the motion to quash service on Mr. Hughes and not to take the deposition of Mr. Hughes. As to the motion for security, they took no position.

16. On April 22, 1953, Mr. Kipnis wrote me and instructed me to default on Mr. Hughes' motion to quash returnable April 27, 1953, and sent a copy of this letter to the Court.

17. The letter contains a denial of certain facts alleged by me in my letter of April 20th to Mr. Mittelman. As my letter contains matters which must remain confidential, unless ruled otherwise by the Court, I cannot in this affidavit refute the whole of Mr. Kipnis' letter, a copy of which went to the Court.

18. Prior to the return date of April 27, 1953, however, I met with one of the attorneys for Mr. Hughes who agreed that the motion should go over to June 8th. This was approved by Judge Harrison on April 27th, although the Court referred to Mr. Kipnis' letter instructing me to default. My duty to my clients prevented me from laying the entire matter before the Court. I merely stated to Judge Harrison that there was a difference between New York counsel and myself and that I hoped to have it resolved before June 8th.

19. In the meantime, at the instance of Messrs. Kipnis and [100] Mittelman, on May 22, 1953, I entered into a stipulation with Mr. Guy Knupp of Mitchell, Silberberg & Knupp and Mr. Roy W. McDonald of Donovan, Leisure, Newton & Irvine, attorneys for defendant RKO Radio Pictures, Inc., which continued the motion for security to August 10, 1953, and continued Mr. Hughes' deposition to July 27, 1953. It was also arranged that the plain-

tiffs would default on the motion to quash service of process on Mr. Hughes.

20. Pursuant to the understanding I did not appear on the return date of the motion to quash the service of process on Mr. Hughes.

21. On June 27, 1953, I received from the clerk of the court notice that "Order to quash service of summons and dismissing action has been docketed and entered." On or about June 29th I checked the docket and found an entry which although ambiguous indicated that the action had been dismissed against the defendant Hughes only. However, I brought the matter to the attention of the Chief Deputy Clerk, Mr. Theodore Hocke, who stated that he would take the matter up with Judge Harrison's clerk and have the docket corrected.

22. I knew nothing and thought nothing more of the matter until I received a telephone call on July 14, 1953, from an attorney in the office of Mitchell, Silberberg & Knupp, who asked me did I consider that the order in this case dismissed the action against all of the defendants. Thinking that he was referring to the minute order, I said "no" and that I had straightened the matter out in the clerk's office; whereupon counsel read to me the order of this Court dated June 26, 1953. This order does indeed dismiss the action against all of the defendants, but it was made without my knowledge or consent.

23. On or about July 16, 1953, I received a copy of the [101] order made June 26th. This was the

first I ever saw of the order. I would comment on that order as follows:

(a) It was apparently prepared by the attorneys for Mr. Hughes as their name and address appear at the head of the document. Neither Mr. Slack nor Mr. Cook appeared for anyone other than Hughes and yet the order dismisses the action against all defendants.

(b) While the recitals are to the effect that there is another action in Nevada between the same parties, that the Nevada action is being actively prosecuted, and that the relevant Nevada rules are identical with the federal rules, there is no recital that the issues are the same. The fact is that the issues are not the same. I have been informed by Mr. Kipnis, and therefore allege on information and belief, that the additional allegations made in the amended complaint here have not been added to the Nevada action.

Implicit in the order submitted is that trial in the Nevada State Court is preferable to the California Federal Court. This would seem contrary to the fact when it is considered that all the records are in California and that most of the important witnesses are here. As indicated later in this affidavit, Mr. Kipnis came to California to take depositions in connection with the Nevada action. Here he took the depositions of such important witnesses as Dore Schary, N. Peter Rathvon, Jerry Wald, Norman Krasna, Sid Rogell, Sam Bischoff, Jack Skirball and Frank Ross. [102]

(c) The order is approved as to form for the plaintiffs by Louis Kipnis, not the responsible local attorney, and a person not admitted to practice in this state or for the purposes of this action.

(d) There is a space for the approval of Mr. Henry Herzbrun, purportedly one of the attorneys for plaintiffs. Mr. Herzbrun did not give his consent or approval to the order because he also is not attorney of record for the plaintiffs.

(e) There is no space for my approval, notwithstanding to the knowledge of all defendants I was the only local attorney of record for the plaintiffs, and the only one authorized to sign any proposed order. The Court's attention is respectfully referred to all previous stipulations and orders made herein. All of them provide for and bear my signature. In fact on one occasion, and at the instance of the attorneys for the defendant RKO, Mr. Kipnis signed a stipulation withdrawing one of the notices for Mr. Hughes' deposition without my knowledge or consent; but on the insistence of Mitchell, Silberberg & Knupp the stipulation was presented to me for my signature.

24. Prior to June 26th there were negotiations between Messrs. Kipnis and Mittelman on the one hand and myself on the other to the end of having Mr. Herzbrun substituted in my place.

25. On May 18, 1953, Mr. Mittelman wrote me for the first time that it was never his intention to let the security motion go by default and that

he and Mr. Kipnis were stipulating to a "simultaneous adjournment of the security motion plus the [103] notice of taking of deposition of Hughes, all subject to Court approval and without prejudice." Mr. Mittelman wrote me further that "if the stipulation adjourning the 'security' motion and the deposition come in before you are formally substituted, won't you please sign it. If it comes in after you are substituted, then, of course, we will have Herzbrun sign it, and we have so written him."

26. Not having been substituted by May 22, 1953, I entered into the stipulation with the attorneys for the defendants as already set forth, and which continued Mr. Hughes' deposition to July 27, 1953, and the motion for security to August 10, 1953.

27. However, I wrote to Mr. Mittelman that I was happy with his decision finally to go forward and proposed that my substitution be effectuated in a formal writing between us which could be filed in New York, Nevada and California.

28. I asked Mr. Mittelman in that letter for a commitment that he would press vigorously in Nevada the charges made here in California. I advised him that should he want my evidence and my help I gladly offered it.

29. I wrote this letter May 19, 1953, and never received a reply.

30. On June 26, 1953, I read in the Press and learned for the first time that at the instance of Mr. Herzbrun subpoenas were issued out of the

California Superior Court calling for the depositions of various persons in connection with the Nevada action. I wrote to Messrs. Kipnis and Mittelman on the same date that I considered these steps as in breach of our relationship, and asked that they forward to me immediately the agreement of substitution.

31. On July 13, 1953, Mr. Kipnis visited me at my office. [104] Not once in that conversation did Mr. Kipnis tell me that the action had been dismissed. On the contrary our conversation was premised on the prosecution of the California action.

32. I want to emphasize that notwithstanding the attorneys for the defendants at all times knew that I was local attorney of record, I was never advised by any of them of the contemplated dismissal of the action against all defendants. It would seem, however, that counsel for the defendants were informed of a proposed substitution of Mr. Herzbrun and myself. This accounts for the place on the proposed order for Mr. Herzbrun's signature; and although Mr. Herzbrun refused to sign, not being the local attorney of record, counsel for the defendants nevertheless submitted the proposed order to the Court.

33. Nor do I wish to stand on any technical defects in the order submitted by the defendants. Had the order been served on me as the minute order of this Court made on defendant Hughes' motion to quash directed, I would not have con-

sented to it. This is a stockholders' derivative action and I consider that my duties to the Court and to the stockholders transcend my duty to New York counsel. This paramount duty would have prevented me from consenting to a dismissal of this action against any and all of the defendants. If called upon by the Court I will give my reasons under oath. I say only at this time that this action should not be dismissed and that this Court should retain jurisdiction pending the outcome of the state action in Nevada.

34. I am concerned only with the best interests of the stockholders and with my duty as an officer of this Court. The difficulty here does not truly arise by reason of any controversy among the attorneys for the plaintiffs. Essentially it arises from the imposition of defendants' will on [105] plaintiffs' New York lawyers against the public interest and against the interests of the scattered and procedurally impotent thousands of small RKO stockholders. It is they who look to this Court for justice and protection.

/s/ BERNARD REICH.

Subscribed and sworn to before me this 9th day of September, 1953.

[Seal] /s/ HELEN SPARKMAN,
Notary Public in and for the County of Los Angeles, State of California. [106]

EXHIBIT "A"

(Article Appearing in Variety on
January 27, 1953.)

"Drop RKO Receivership Suit; Lawyer Disclaims Special 'Consideration.'

"New York, Jan. 26—A petition of three RKO Pictures minority stockholders seeking to place the company in temporary receivership was withdrawn today at a hearing before Supreme Court Justice Henry Clay Greenberg. Explaining his move to the court, stockholders' attorney Louis Kipnis said he decided not to press the application on the basis of affidavits submitted by various parties concerned. These papers pointed out the RKO board is now reconstituted compared with the situation last November, when only two directors were in office.

"Before granting the withdrawal, Justice Greenberg expressed considerable surprise at the latest development. 'Isn't this an extraordinary termination of a motion?' the court asked Kipnis. 'Affidavits of some 40-odd pages,' the jurist added, 'were handed me last November. These need some explanation in the light of the seriousness of the application. * * *,'

"Ordering Kipnis to take the stand, Greenberg then asked the witness if either he or his clients had accepted or been promised any 'consideration' to enter the withdrawal. Kipnis made a stout denial, and testified the step had been taken 'freely and without any promises.'

"Receivership petition was part of a derivative stockholders' suit brought against RKO last Nov. 13 by Eli B. Castleman, Marion V. Castleman, who hold 2,500 shares, and Louis Feuerman, holder [107] of 25 shares. Also named defendants were Howard Hughes and several subsidiaries. Complaint generally charges 'waste and mismanagement.' In addition, it is asked that Hughes be compelled to make an accounting.

"Although the receivership motion is now discontinued, Kipnis emphasized the suit proper will be pressed. Actual withdrawal of the receivership petition was accomplished by stipulation entered into between Kipnis and RKO attorneys. It withdraws the motion 'without prejudice and without costs.'

"Among those attending the 10-minute hearing were Albert R. Connelly of Cravath, Swaine & Moore, RKO's rep, and Isidor Kresel. Latter was there as an observer for David J. Greene, Wall Street broker, who has substantial holdings in RKO."

Affidavit of Service by Mail attached.

[Endorsed]: Filed September 10, 1953. [108]

[Title of District Court and Cause.]

MOTION TO APPEAR AS
AMICUS CURIAE

Raymond A. Cook, a licensed attorney at law in the State of Texas, heretofore permitted by this Honorable Court to appear in the above-captioned action on behalf of the defendant, Howard R. Hughes, hereby respectfully moves the Court for leave to appear before this Court as an amicus curiae for the purpose solely of presenting to the Court certain matters of fact which may be of interest to the Court upon a hearing of the recently filed "Motion to Vacate Order of Dismissal, Dated June 26, 1953"; and subject to the Court's action in permitting or denying such appearance the annexed affidavit is respectfully submitted for this Court's consideration.

/s/ RAYMOND A. COOK. [111]

[Title of District Court and Cause.]

AFFIDAVIT

State of Texas,
County of Harris:

Raymond A. Cook, being first duly sworn, deposes and says:

I.

I am a licensed attorney at law with my residence and office in Houston, Harris County, Texas. On

April 27, 1953, I was granted leave by the Honorable Ben Harrison, before whom the above-captioned action was pending, to appear specially in the action on behalf of the defendant, Howard R. Hughes; and pursuant to such leave did appear for the purpose of presenting and arguing on June 8, 1953, a motion to dismiss or in the alternative to quash service of process on Mr. Howard R. Hughes. The matters contained in this affidavit relate to the circumstances at such appearance and the order entered by this Court on June 26, 1953.

II.

On April 27, 1953, this Honorable Court in chambers stated that he saw no reason for this case to be continued on [112] his docket when the same controversy was going forward in another Court. On that same day in open court Mr. Bernard Reich, then the attorney of record for plaintiffs, in response to a direct inquiry from this Court stated that by June 8, 1953, "all differences with Mr. Kipnis will have been resolved."

III.

Thereafter T. A. Slack, the attorney of record for Howard R. Hughes, received the letter dated May 11, from Louis Kipnis, which is annexed to the affidavit as Exhibit A, such letter advising Mr. Slack that the authority of Bernard Reich had been revoked and cancelled and that a new attorney was being substituted in his place. Shortly thereafter he was advised that Mr. Henry Herzbrun, a licensed

attorney at law of Los Angeles, California, had been appointed as the local attorney of record in place of Mr. Reich.

IV.

On June 8, 1953, the defendant's Motion to Dismiss or in the Alternative to Quash Service of Process came on for hearing before this Court. No attorney appeared for the plaintiffs. This Honorable Court indicated from the bench his decision to sustain the motion. The undersigned attorney then inquired of the Court if the order should be prepared as a dismissal of the action or merely quashing of service of process, whereupon the Court asked if in counsel's opinion the motion was broad enough to permit a dismissal. The undersigned, being then and now confident that the motion was sufficient to permit dismissal within the Court's inherent discretionary power, so stated to the Court but at the same time expressly pointed out that no attorney for the plaintiffs was present and the plaintiffs had not previously indicated a willingness to dismiss the action. Whereupon this Court directed that the order be prepared as a dismissal and submitted to opposing counsel for their approval. [113]

V.

Thereafter on June 9, 1953, the order in substantially the form as ultimately entered by the Court was presented to Mr. Louis Kipnis by the letter, a copy of which is annexed to this affidavit as Exhibit B. In view of the statement in open court

by Bernard Reich that his differences with Mr. Kipnis would be resolved by June 8, 1953, and in view of the letter referred to above as Exhibit A announcing the termination of his authority, no copy of the letter or order was sent to Mr. Reich; but a copy was sent to Mr. Henry Herzbrun, the new local attorney. Mr. Herzbrun then informed the undersigned that Bernard Reich was refusing to execute a written substitution of attorneys but that under the local rules a dismissal of this kind could be presented with the form endorsed only by the leading counsel. The order was then delivered to the Court either by Mr. Herzbrun or by the RKO attorneys. Such action in the opinion of the undersigned attorney constituted full compliance with this Court's local rules and in particular with Rule 7A and Rule 1 (e) (3).

VI.

The undersigned is familiar with the pre-trial depositions which have been taken by the plaintiffs in the Nevada action. To date seventeen depositions have been taken, including most of the parties or witnesses with personal knowledge of the circumstances or transactions suggested by the pleadings. Notice has been delivered under the Nevada rules to take the oral deposition of Mr. Howard R. Hughes on September 28, 1953, in Las Vegas, Nevada. The case is set for trial on its merits on January 5, 1954. No reason is known why the case will not proceed at that time to final judgment as to

all matters in controversy among the parties before the Court. [114]

VII.

The undersigned has read the affidavit of Bernard Reich which was filed with the motion to vacate and has been informed of certain statements made by Mr. Reich to the trade press in apparent explanation of his affidavit. There are serious inaccuracies in both but it is neither becoming nor necessary to confuse this record with immaterialities. However, it is appropriate for me to state and I do hereby state as a fact that in no sense have Howard R. Hughes or his attorneys "imposed their will" upon the attorneys for plaintiffs or in any way sought any collusive advantage in the Nevada action. Furthermore, this Court should be aware that upon the first hint of dissidence from Mr. Reich the undersigned in good faith sought to inquire of him the reasons for his attitude. In response to such inquiry Mr. Reich refused to discuss the matter and referred the undersigned to Mr. Clore Warne, an attorney of Los Angeles, California, whom Mr. Reich identified as the attorney whom he had retained "to protect his interest in the matter."

VIII.

This affidavit is submitted by the undersigned solely as an amicus curiae and not on behalf of Howard R. Hughes, on whom no service of process has been perfected. However, in the Court's discretion and at its direction the undersigned is prepared to present such further matters of fact or

law as may be material to a disposition of the pending motion.

/s/ RAYMOND A. COOK.

Subscribed and sworn to before me on the 18th day of September, 1953.

[Seal] /s/ VIRGINIA CAMPBELL,
Notary Public in and for
Harris County, Texas. [115]

EXHIBIT A

(Copy)

Louis Kipnis
Attorney & Counselor at Law
111 Broadway, New York 6, New York
Worth 2-3100

May 11, 1953.

Thomas A. Slack, Esq.,
7000 Romaine Street,
Hollywood 38, California.

Re: Castleman v. Walker (California Case).

Dear Mr. Slack:

Please be advised that by letter dated and mailed May 7, 1953, my associate and I revoked and cancelled whatever authority we had heretofore granted to Bernard Reich, Esq., of 9441 Wilshire Boulevard, Beverly Hills, California, in the above matter. We

also requested that he do nothing further in the case and that we were arranging for a new attorney to be substituted in his place.

Very truly yours,

/s/ LOUIS KIPNIS.

LK:ms [116]

(Copy)

EXHIBIT B

June 9, 1953.

Mr. Louis Kipnis,
111 Broadway,
New York 6, New York.

Re: Castleman, et al., vs. Hughes, et al.

Dear Mr. Kipnis:

Yesterday in the above action I urged the motion of Mr. Hughes to dismiss or in the alternative to quash summons. Apparently on your authority Mr. Herzbrun did not appear, nor did Mr. Reich, and the Court granted the motion.

The Court specifically inquired if the motion was in sufficient form to permit an order of dismissal of the entire action. You will recall the Court's previous comments that there was no justification for this suit "cluttering up" his docket with the same plaintiffs prosecuting a similar action in Nevada. I submitted to the Court that our motion was suf-

ficient, but pointed out that the plaintiffs in acquiescing in a quashing of service were not necessarily agreeing to a dismissal. However, the Court directed that the order be prepared to cover a dismissal, and enclosed herewith is the form of order which I am presenting.

From our various conversations, and from the current activity in the Nevada action, I gather that with the quashing of the Hughes service there is no longer any reason for keeping the California action on the docket. However, you may wish to modify or enlarge the recitations; and if so, I suggest that you retype the order in your amended form and recirculate it for signatures.

Yours very truly,

/s/ RAYMOND A. COOK.

CC: Henry Herzbrun,
Guy Knupp,
Roy W. McDonald,
T. A. Slack.

[Endorsed]: Filed September 21, 1953. [117]

[Title of District Court and Cause.]

REPLY AFFIDAVIT OF BERNARD REICH
IN OPPOSITION TO MOTION AND AFFI-
DAVIT OF RAYMOND A. COOK AS
AMICUS CURIAE

State of California,
County of Los Angeles—ss.

Bernard Reich, being first duly sworn, deposes and says:

Raymond A. Cook is no friend of the Court. He appeared in this action as one of the attorneys for the defendant Howard R. Hughes. He cannot, therefore, act as amicus curiae. (See Memorandum submitted herewith.)

I will answer the affidavit of Mr. Cook using the same paragraphing:

I.

Defendant Howard R. Hughes did move to dismiss the action [as against him], or in lieu thereof to quash service on him on grounds which went to the service and not to the [147] dismissal of the action. The motion could only have been construed as a motion to quash the service, or at best a motion to dismiss the action as against the defendant Hughes. No motion was made by any other defendant for a dismissal of the entire action. Furthermore, the motion by Mr. Hughes was made at a time when there was an outstanding stipulation for the taking of his deposition and for the hearing of a motion for security.

Mr. Cook admits that plaintiffs were unwilling to dismiss the action (His Affidavit, Paragraph IV, page 2).

II.

I knew of no conference on April 27, 1953, in the judge's chambers.

I did say in open court that I would resolve all differences with Mr. Kipnis by June 8, 1953. I said this in support of my request for a continuance of the motion from April 27th to June 8th. My differences with Mr. Kipnis were resolved in that while the motion to quash service was not to be opposed, the motion for security would be, and the action prosecuted.

III.

I did not receive a copy of the letter dated May 11th from Mr. Kipnis to Mr. Slack. I did not advise either Mr. Slack or Mr. Cook that I would be substituted out of the case. To the contrary, I told Mr. Cook before and after May 11th, that I would see to it that the Court was advised of all the facts in this case before I was substituted out of it. Mr. Cook and Mr. Slack knew after May 11th, the date of the so-called revocation of authority, that I was acting for the plaintiffs. They and every defendant knew that it was I who signed the stipulation dated May 22, 1953, more than ten days after the [148] so-called letter of revocation of authority. Moreover I talked to Mr. Cook just prior to June 8th, telling him that I might or might not appear on June 8th, and that in any event I was not opposing the motion

to quash service or Mr. Hughes. Mr. Slack and Mr. Cook at all times knew that I would oppose any dismissal of this action so long as I was attorney of record.

IV.

Notwithstanding the Court's direction that an order be prepared and submitted to opposing counsel for their approval, I never received any such proposed order, nor was I even informed that such an order was contemplated. Instead the proposed order was submitted to Mr. Henry Herzbrun, not an attorney of record; and when he refused to sign for that reason, the order was never submitted to me or to any local counsel but was presented to the Court with Mr. Herzbrun's signature absent. I have been advised and therefore allege that no explanation was made to the Court as to why neither I nor Mr. Herzbrun gave their so-called approval.

V.

I do not know what Mr. Herzbrun advised when the proposed order was submitted to him. I know only that Mr. Herzbrun did not telephone me about the matter. I know also that Mr. Herzbrun knew that I was still local attorney of record and I am most anxious to see an affidavit from Mr. Herzbrun that he informed Mr. Cook that my signature was not necessary. As to Mr. Cook's opinion that he complied with the Rules of this Court, I say only that Mr. Cook is not admitted to practice in this Court, except for this case. I say also that there is

no explanation to this Court as to why I was not informed of what was taking place unless it was that the defendants and [149] their counsel did not want the Court to learn the true facts.

VI.

No answer required.

VII.

Mr. Cook's statement that there are serious inaccuracies in my papers is without value in the absence of specificity. Mr. Cook states further that at the first hint of dissidence he in good faith inquired of me of the reasons for my attitude. He fails to state when this was. The facts are that Mr. Cook's inquiry was made on or about July 16, 1953, following my letter dated July 15, 1953, and delivered on that date to the attorneys for RKO as follows:

“Delivered by Hand

“July 15, 1953.

“Mitchell, Silberberg & Knupp and

“Roy W. McDonald, Esq.,

“6399 Wilshire Boulevard,

“Los Angeles 48, California.

“Re: Castleman v. Hughes,

DC Cal. 14848-BH.

“Gentlemen:

“I learned for the first time yesterday, from your Mr. George Benedict, of the formal order made

June 26, 1953, in the above matter dismissing the action against all parties.

"This order was presented to Judge Harrison without my knowledge or consent, and notwithstanding I am the responsible attorney of record for the plaintiffs.

"The order is erroneous and invalid as going beyond the motion made on behalf of Mr. Hughes to quash the service upon him and to dismiss the action as against him only, and as having been submitted to Judge Harrison without my signature of approval. [150]

"As of this writing I still have not seen the order, although Mr. Benedict is sending me a copy which I ought to receive today.

"Intend to correct the record before Judge Harrison and invite you to attend. I will inform you of the time shortly.

"Very truly yours,

"*/s/ BERNARD REICH.*

"cc: Louis Kipnis, Esq., c/o Henry Herzbrun, Esq."

Mr. Cook, therefore, knew full well the reason for my attitude. This was the last straw and I told Mr. Cook so, and I did indeed refer him to Mr. Warne.

I do not know whether I told Mr. Cook that I had retained Mr. Warne "to protect my interests in the matter"; but I could very well have done so, among other things. If I did not tell him at that conversation, I told him at others when he tried to persuade me not to oppose any of the motions which

the defendants were making in this action, that my duty to the stockholders and to the Court transcended any duty that I owed to Messrs. Kipnis and Mittelman. I told him further that while he and the other attorneys could impose their will on Messrs. Kipnis and Mittelman, they could not do it to me.

VIII.

Again I say that Mr. Cook is no friend of the Court; although I have no objection to his affidavit becoming a record in this case.

/s/ BERNARD REICH.

Subscribed and sworn to before me this 1st day of October, 1953.

[Seal] /s/ HELEN SPARKMAN,
Notary Public in and for the County of Los Angeles, State of California.

Affidavit of Service by Mail attached.

[Endorsed]: Filed October 2, 1953. [151]

[Title of District Court and Cause.]

MINUTES OF THE COURT—OCT. 5, 1953

Present: The Hon. Ben Harrison,
District Judge.

Counsel for Plaintiffs: Bernard Reich.

Counsel for Defendants: Guy Knupp for
def't RKO Radio Pictures Corp.

J. J. Brandlin for Harry and Gertrude
Rosenthal.

Proceedings:

For hearing (1) motion of plaintiffs to vacate the order of dismissal, dated June 26, 1953, pursuant to motion, notice, memo. of points and authorities, filed Aug. 17, 1953, and affidavit of Bernard Reich, filed Sept. 10, 1953; (2) motion of Raymond A. Cook, Esq., to appear as amicus curiae, filed Sept. 21, 1953.

Raymond A. Cook, Esq., who is present, makes a statement, re motion (2).

The Court makes a statement and Orders motion (2) Denied.

Attorney Reich makes a statement in support of motion (1) of plaintiffs to vacate the order of dismissal.

Court Orders said motion Granted; Counsel to prepare and present appropriate order for signature.

EDMUND L. SMITH,
Clerk.

By MURRAY E. WIRE,
Deputy Clerk. [183]

In the United States District Court, Southern District of California, Central Division

No. 14848-BH

ELI B. CASTLEMAN, et al.,

Plaintiffs,

vs.

HOWARD R. HUGHES, et al.,

Defendants,

HARRY ROSENTHAL and GERTRUDE ROSENTHAL,

Applicants for Intervention.

NOTICE OF CROSS-MOTION AND MOTION
FOR CERTAIN RELIEF, ETC.

To the Defendant RKO Radio Pictures, Inc., and Mitchell, Silberberg & Knupp, Esqs., and Roy W. McDonald, Its Attorneys, and to Harry Rosenthal and Gertrude Rosenthal, Applicants for Intervention, and Their Attorneys, Vaughan and Brandlin, Esqs., and to Bernard Reich, Esq.

You and Each of You Will Please Take Notice that the plaintiffs in the above-entitled action will cross-move this Court on October 19, 1953, at 10:00 a.m., or as soon thereafter as counsel can be heard, in Courtroom 8 of the above-entitled Court, located in the United States Post Office and Courthouse Building, Los Angeles 13, California, for an order: [239]

A. Staying consideration of the motion of the said Harry Rosenthal and Gertrude Rosenthal to intervene and become parties plaintiff herein until after the completion of the taking of their depositions contemporaneously noticed herewith unless this Court in the meantime shall have denied their application on the grounds hereinafter set forth; and plaintiffs, further, will move this Court for an order:

B. Enjoining the said Bernard Reich, Esq., from taking any further steps in this case as alleged counsel for the plaintiffs;

C. Substituting Henry Herzbrun, Esq., for the said Bernard Reich, Esq., as local attorney of record for the plaintiffs herein;

D. Admitting Louis Kipnis of the New York Bar, pro hac vice, and designating said Louis Kipnis, Esq., as lead counsel for the plaintiffs herein in the above-entitled action;

E. Quashing the notice, dated October 5, 1953, heretofore served by the said Bernard Reich, Esq., to take the depositions of Howard Hughes and Ross Hastings as officers and/or employees of the defendants, RKO Pictures Corporation and RKO Radio Pictures, Inc., and

F. Granting such other and different relief as to the Court may seem just in the premises.

Said cross-motion "A" as to applicants for intervention, will be made upon the following grounds:

1. The proposed intervenors, Harry Rosenthal and Gertrude Rosenthal, do not appear to be stock-

holders of record on the stock book of RKO Pictures Corporation.

2. The proposed pleading does not comply with the requirements of Rule 24 of the Federal Rules of Civil Procedure. [240]

3. The proposed pleading does not present any new issues which present common questions of law and fact.

4. The proposed intervention will prejudice the adjudication of the rights of the original parties.

5. The application for intervention is not timely made and the proposed intervenors are guilty of laches.

As to the affirmative portion of plaintiffs' motion "B," relating to enjoining Bernard Reich, it will be made on the following grounds:

1. All prior authority granted to Bernard Reich of any kind, to act for plaintiffs, was revoked by letter dated May 7th, 1953.

2. A stipulation of substitution of attorneys signed by the plaintiffs, Mr. Kipnis and Mr. Herzbrun, was submitted to Mr. Reich providing for voluntary substitution but Mr. Reich refused to sign the same until his fees were secured outside of the instant case.

3. Said stipulation of substitution was forwarded on Reich's own suggestion.

4. Unless restrained from proceeding without authority, Mr. Reich will impose liability on the

plaintiffs for stenographic and other costs against their will.

5. Unless restrained, Mr. Reich, by proceeding unilaterally and without authority, will impair and impede the rights of the plaintiffs and afford defendants an opportunity to delay the litigation by claiming doubt as to the identity of proper counsel herein.

As to the affirmative portion of plaintiff's motion "C," relative to substituting Henry Herzbrun, it will be made on the following grounds:

1. There is incorporated by reference all the grounds set forth in the preceding portion of the motion as if [241] herein fully and at length set forth.

As to the affirmative portion of plaintiff's motion "D," relative to admitting Louis Kipnis of the New York Bar, pro hac vice, to the Bar of this Court and naming him lead counsel, it will be made on the following grounds:

1. The only convention relationship of attorney and client is that which exists between Louis Kipnis and plaintiffs.

2. Louis Kipnis and Leo B. Mittelman of the New York Bar and the accounting firm of David Berdon & Co. have devoted over a year of concentrated time, effort and study to the prosecution of the derivative lawsuit for the benefit of RKO Radio Pictures and RKO Pictures Corporation; they have

examined thousands of documents, have conducted extensive examinations before trial of seventeen witnesses whose testimony transcribed is approximately 1,100, pages long.

3. Messrs. Kipnis and Mittelman and Mr. Rosner of the accounting firm of David Berdon & Co., have examined every possible item of information, traced every rumor and investigated every report in the prosecution of this case.

4. Messrs. Kipnis and Mittelman and the accounting firm of David Berdon & Co., have had many years of experience in the prosecution of derivative stockholders' suits and are qualified by experience to prosecute the claims herein.

5. Messrs. Kipnis and Mittelman, as attorneys for the plaintiffs herein, commenced the first suit on the within subject matter in New York, in California, and in Nevada and are first in all jurisdictions including Nevada, where the case is ready for trial.

6. Unless lead counsel is appointed, then there may arise, as there has in this case, conflicts of methods [242] of procedure to the detriment of the prosecution of the claims and the prejudice of the rights of all stockholders similarly situated.

As to the affirmative portion of plaintiffs' motion "E," relative to quashing the notice served by Bernard Reich, it will be made on the following grounds:

1. There is incorporated by reference all of the grounds set forth in the preceding portion of the motion.

2. Unless this notice is quashed, it might interfere with the taking of the deposition of Mr. Hughes now scheduled to be taken on October 12 by Mr. Kipnis, in Nevada.

3. Unless quashed, said scheduled examination will impose a liability on the plaintiffs for stenographic costs which they have neither authorized nor desire and in view of the scheduled examination of Mr. Hughes in the Nevada case, will be wasteful, duplicative and harassing.

As to the affirmative part of plaintiffs' motion "F," relating to such other and different relief as to the court may seem just in the premises, it will be made on the following grounds:

1. Mr. Reich should be barred from any participation in this or any other derivative suit for or on behalf of RKO on the grounds of possible conflict of interest.

2. The conflict of interest referred to arises from the appearance, as of court, by Mr. Reich as attorney for plaintiffs in litigation seeking the recovery of large sums of money from RKO Radio Pictures, Inc., and RKO Pictures Corporation as adversary parties for alleged violation of anti-trust laws.

3. There has been generated ill feeling between Mr. Reich and Messrs. Kipnis and Mittelman and,

rather than [243] avoiding personalities, Mr. Reich has alluded unfairly to Messrs. Kipnis and Mittelman including issuing press releases about them and this Court.

4. Unless Mr. Reich is barred from appearing in any capacity allegedly on behalf of RKO Pictures Corporation, the rights of the shareholders of RKO Pictures Corporation will be jeopardized.

This motion is based upon the records, papers and files in the above action and upon affidavits and evidence to be hereafter filed and introduced.

Dated: October . . . , 1953.

/s/ HENRY HERZBRUN,
Attorney for Plaintiffs.

Good Cause Appearing to the Court Therefor,

It Is Hereby Ordered that service of the foregoing Notice of Motion shall be sufficient, if served on or before October 13, 1953, and filed herein on or before said 13th day of October, 1953.

Dated: October 13, 1953.

/s/ BEN HARRISON,
Judge.

[Endorsed]: Filed October 13, 1953. [244]

[Title of District Court and Cause.]

REASONS AND MEMORANDUM IN OPPOSITION TO NOTICE OF CROSS-MOTION FOR CERTAIN RELIEF BY HENRY HERZBRUN, LOUIS KIPNIS AND LEO B. MITTELMAN

Preliminary Statement

On October 4, 1953, the undersigned received in the mail documents entitled "Notice of Cross-Motion and Motion for Certain Relief, Etc." and "Points and Authorities in Support of Cross-Motion and Motion for Certain Relief."

The motion is subscribed by Henry Herzbrun purporting to be attorney for plaintiffs. Mr. Herzbrun is not attorney for the plaintiffs, no substitution having been accomplished either pursuant to Local Rule 1 or in any other wise under law.

The motions themselves consist of six pages; the points and authorities consist of three pages. The motion is returnable [248] October 19, 1953, and no cause is shown by affidavit or otherwise why the undersigned was not entitled to ten days by personal service and thirteen days' service by mail. Incidentally, counsel has his office less than one block from the undersigned; yet, service was made by mail so as to be received October 14, 1953 (five days before the return date with an intervening week end) and not October 13th as specified in the Order Shortening Time.

The notice of motion states that the motion is based upon the records, papers and files in the action and "upon affidavits and evidence to be hereafter filed and introduced."

Notwithstanding Local Rule 3, subdivision (d), no affidavit required or permitted by Rule 6 (d) FRCP was filed with the notice of motion; no permission to file such affidavit has been granted; and it is clear that the filing of the affidavits will not be served in time for the hearing of the motion on the return date October 19, 1953.

The undersigned respectfully incorporates by reference on this motion his affidavits heretofore filed as follows:

1. Affidavit of Bernard Reich in Support of Motion to Vacate Order of Dismissal, sworn to September 9, 1953.
2. Reply Affidavit of Bernard Reich in Opposition to Motion and Affidavit of Raymond A. Cook as Amicus Curiae, sworn to October 2, 1953.
3. Reply Affidavit of Bernard Reich to Affidavit of Louis Kipnis and Leo B. Mittelman, sworn to October 1, 1953.
4. Reply Affidavit of Bernard Reich to Affidavit of Roy W. McDonald, sworn to October 2, 1953.

Actually there are several motions as follows:

- (a) Staying consideration of the motion of [249] the Rosenthals to intervene pending the taking of

their depositions allegedly contemporaneously noticed.

- (b) Enjoining Bernard Reich from taking any further steps in this case as counsel for plaintiffs.
- (c) Substituting Henry Herzbrun for Bernard Reich as local attorney of record for the plaintiffs.
- (d) Admitting Louis Kipnis to this Court and designating Louis Kipnis as lead counsel in this action.
- (e) Quashing the notice to take the depositions noticed by Bernard Reich.
- (f) Granting other and different relief.

Reasons in Opposition

1. Proposed counsel for plaintiffs has no standing in this action; his said motions are therefore null and void.
2. The moving papers do not establish good cause or any cause for shortening the time of service.
3. Service of the moving papers was insufficient.
4. The moving papers are insufficient.
5. The undersigned local attorney of record has not been served with any notice of the taking of the depositions of the Rosenthals and no authority is shown for the taking of their depositions by the purported attorney for the plaintiffs.
6. There is no competent evidence justifying en-

joining Bernard Reich from proceeding in this action.

7. There is no proper application by the plaintiffs for the substitution of proposed counsel for said Bernard Reich. [250]

8. There is no proper application for the admitting of Louis Kipnis as a member of this bar.

9. There is no proper application for designating Louis Kipnis as lead counsel; and, furthermore, to appoint Louis Kipnis lead counsel would be to hand over control of the case to an out-of-state attorney who has indicated his intention not to prosecute this action; and, furthermore, lead counsel must be a local attorney over whom the Court can exercise full control.

10. There is no authority for the purported attorney for the plaintiffs to quash a notice of deposition served by the local attorney of record for the plaintiffs, Bernard Reich.

11. Justice requires that the motions be denied; or in the alternative continued; or in the alternative that a special Master be appointed to undertake an investigation and inquiry into the conduct of the parties and their attorneys, including the undersigned; or in the alternative that a Special Master be appointed to fix the fees and costs of the undersigned.

General Argument

The undersigned does not oppose the intervention by applicants for intervention, Harry Rosenthal and

Gertrude Rosenthal. This alone should establish the fact that the undersigned's sole interest is not fees. The record will show that the undersigned has up to now fought unaided to uphold the integrity of the local bar and bench.

The undersigned admits that he has not followed the instructions of New York counsel. The record shows and will show, if the undersigned is called upon to give further [251] evidence, that the reason for his disobedience was not just a disagreement among counsel as to procedure, but because the undersigned has evidence of collusion between the New York attorneys for the plaintiffs and the defendants.

The undersigned maintains and will continue to maintain that his duty to this Court and to the class of stockholders which he represents transcends his duty to his out-of-state correspondents.

The undersigned would like to obtain compensation for his services; but this desire has always been secondary as the record will show. And no amount of money will compensate him for the lonely, lonely fight for justice and right which he has been fighting.

Howard Hughes is a very rich and powerful man. His attorneys, both in New York and in California, are most resourceful. If this were not enough to stop a young attorney, Mr. Hughes and his attorneys have had the help of plaintiffs' New York attorneys.

There is much evidence which the undersigned can give but which perhaps he may not out of duty to the stockholders he represents. He therefore has had to take much abuse without fighting back.

The undersigned has been approached by other stockholders to represent them; but so far has not accepted retainers pending consultation with the Court.

The record shows that Mr. Kipnis does not intend to prosecute this action. The record shows that proposed counsel is a willing agent of Mr. Kipnis. Assuming, therefore, even a proper application for substitution, how can this Court substitute this counsel for Mr. Reich, admit Mr. Kipnis and appoint him lead counsel? How could this protect the [252] rights of the stockholders in the face of the allegation that notwithstanding this action was filed prior to the Nevada action, and is in the federal court on the undersigned's insistence, Mr. Kipnis insists on prosecuting the Nevada action in a state court under the circumstances related in the affidavits?

The undersigned does not insist that this Court try this case. He asks that the Court retain jurisdiction with instructions to the undersigned to report to the Court with respect to the proceedings in New York and in Nevada.

As to the substitution of the undersigned: this is a class action; the undersigned represents not just these plaintiffs but all of the stockholders. It is

respectfully submitted that the Court has the authority and power to do any of the following:

1. Deny the motions herein in all respects.
2. Continue the motions for a sufficient period of time to allow proper inquiry.
3. Appoint a Special Master to take testimony on all issues.
4. To allow Bernard Reich to appear for other stockholders.
5. On proper application to allow the substitution on condition that Mr. Reich receive the reasonable value of his services, together with his costs.
6. Appoint a Special Master to take testimony on the last mentioned issue. [253]

Points and Authorities

I. Henry Herzbrun Has No Standing in This Action; His Said Motions Are Therefore Null and Void.

Local Rule 1 (e) (2), (3).

II. The Moving Papers Do Not Establish Good Cause or Any Cause for Shortening the Time of Service.

III. Service of the Moving Papers Was Insufficient.

See Preliminary Statement, *supra*.

IV. The Moving Papers Are Insufficient.

See Preliminary Statement, *supra*.

V. The Undersigned Local Attorney of Record Has Not Been Served With Any Notice of the Taking of the Depositions of the Rosenthals and No Authority Is Shown for the Taking of Their Depositions by the Proposed Attorneys for the [254] Plaintiffs.

VI. There Is No Competent Evidence Justifying Enjoining Bernard Reich From Proceeding in This Action.

Since affidavits have not accompanied the motions, and since the only evidence on file by affidavits on both sides indicates that the New York attorneys are acting contrary to the interest of the plaintiffs and all the stockholders, there is no evidence which would justify the issuance of an injunction.

Moreover should an injunction be issued, the applicant must give security pursuant to Rule 65, subdivision (c) of the Federal Rules of Civil Procedure.

VII. There Is No Proper Application by the Plaintiffs for the Substitution of Proposed Counsel for Bernard Reich.

Local Rule 1 (e), (2), (3).

The motion for substitution is made by Henry Herzbrun of the local bar and Louis Kipnis and Leo B. Mittelman of the New York bar. Henry Herzbrun is not yet the attorney for the plaintiffs. Messrs. Kipnis and Mittelman are not even admitted to this bar.

There is therefore no application by the plaintiffs themselves by way of affidavit or otherwise.

VIII. The Is No Proper Application for the Admitting of Louis Kipnis as a Member of This Bar.

Local Rule 1 (d). [255]

IX. There Is No Proper Application for Designating Louis Kipnis as Lead Counsel; And, Furthermore, to Appoint Louis Kipnis Lead Counsel Would Be to Hand Over Control of the Case to an Out-of-State Attorney Who Has Indicated His Intention Not to Prosecute This Action; And, Furthermore, Lead Counsel Must Be a Local Attorney Over Whom the Court Can Exercise Full Control.

Local Rule 1 (d); see General Argument, *supra*; see Affidavits on file on Motion to Vacate Dismissal Granted October 5, 1953.

X. There Is No Authority for the Proposed Attorney for the Plaintiffs to Quash a Notice of Deposition Served by the Local Attorney of Record for the Plaintiffs, Bernard Reich.

Local Rule 1 (3).

XI. Justice Requires That the Motions Be Denied; or in the Alternative Continued; or in the Alternative That a Special Master Be Appointed to Undertake an Investigation and Inquiry Into the Conduct of All Parties and Their Counsel; or in the Alternative That a Special Master Be Appointed to Fix the Fees and Costs of Bernard Reich.

See General Argument; *supra*; see Affidavits on Motion to Vacate Dismissal Granted October 5, 1953; [256]

See Point IV, Page 5, of Plaintiffs' "Memorandum of Points and Authorities in Support of Motion to Vacate Order of Dismissal Dated June 26, 1953," filed on or about August 17, 1953.

On the issue of fees see:

John Griffiths & Son Co. vs. United States,
72 F.(2d) 466, 468 (CCA 7, 1934);

Ingold vs. Ingold, 30 F. Supp. 347, 348 (DC SD N.Y. 1939);

6 Cal. Jur. (2d) 369, Attys § 176.

In the Griffiths case, *supra*, the circuit court stated:

"Complaint is made as to the character of the proceedings. Admittedly, where an attorney is employed upon a contingent fee and the clients desire to terminate the relations, the proper practice is to set a motion for substitution of counsel down for a hearing, notify the attorney of record of the motion, ascertain all that is due and owing him by reason of his services and expenses, and provide for the payment of his compensation, as a condition precedent to the allowance of the order of substitution."

In the Ingold case, *supra*, the court stated:

"This action, which involves a considerable sum

of money, was discontinued after issue joined, by the plaintiff and defendant entering into a stipulation, in and by which they consented to the dismissal of the action. The action is based upon contract; the stipulation was made and entered [257] into and signed by the plaintiff without the knowledge or consent of her attorney, and made and entered into by the defendant with knowledge, either actual or constructive, that the plaintiff's attorney had an interest in the lawsuit by way of his fee.

"True, the plaintiff did discharge her attorney at or about the time of the signing of the stipulation of discontinuance, and the client has a right to discharge her attorney, where he is hired on a contract, his payment to be a contingent fee, any time before the contract, by its terms is to expire, but the client is liable for the services rendered if the discharge is wrongful. *E. Chase Crowley vs. Laura A. Wolf*, 281 N.Y. 59, 22 N.E.2d 234, decided July 11, 1939.

* * *

"The pertinent part of Rule 41 of the Federal Rules of Civil Procedure, 28 U.S.C.A. following section 723c, namely, Rule 41(a) (1), was never intended as a cloak whereby a client might settle or discontinue a lawsuit, and disregard entirely the interest of the attorney in the lawsuit. As a matter of fact, Rule 41 was intended for the purpose of setting forth and curbing the right of a plaintiff to discontinue actions, and simplify a practice which heretofore has never been clearly outlined."

Conclusion

Justice in law and in equity requires the denial of the cross-motions in all respects. [258]

In the alternative the cross-motions should be continued pending further investigation and inquiry by a Special Master or perhaps by an Amicus.

Dated: October 16, 1953.

/s/ BERNARD REICH,
Attorney for Plaintiffs.

[Endorsed]: Filed October 16, 1953. [259]

[Title of District Court and Cause.]

MOTION FOR APPOINTMENT OF SPECIAL
MASTER PURSUANT TO RULE 53 OF
FEDERAL RULES OF CIVIL PROCEDURE

Comes Now the undersigned, attorney of record for the plaintiffs, and makes this motion, as originally requested in Memorandum dated October 16, 1953, for the appointment of a Special Master with maximum powers, all in accordance with Rule 53 of the Federal Rules of Civil Procedure, to investigate, receive and report all evidence, and make findings concerning all matters before this Court in this action now pending and continued to December 28, 1953, including but not limited to the facts and circumstances of the submission of the defendants Howard R. Hughes, RKO Pictures Corporation and

RKO Radio Pictures, Inc., to the jurisdiction of the Nevada State Court, of the plaintiffs' default on defendant Hughes' motion to quash service, and of the dismissal of this action (later vacated [281] by this Court) on June 26, 1953.

Dated: November 12, 1953.

/s/ BERNARD REICH,
Attorney for Plaintiffs.

[Endorsed]: Filed November 16, 1953. [282]

[Title of District Court and Cause.]

AFFIDAVIT OF BERNARD REICH IN SUPPORT OF MOTION FOR THE APPOINTMENT OF A SPECIAL MASTER UNDER RULE 53 OF THE FEDERAL RULES OF CIVIL PROCEDURE

State of California,
County of Los Angeles—ss.

Bernard Reich being first duly sworn, deposes and says:

1. I am local attorney of record for the plaintiffs.
2. I make this affidavit in support of the motion herein for the appointment of a Special Master in accordance with Rule 53 of the Federal Rules of Civil Procedure.

3. I am informed by the local trade papers, Daily Variety and Hollywood Reporter, that on November 10, 1953, the New York Supreme Court, by Honorable Justice S. Samuel Di Falco, in a minority stockholders' action against some of the defendants herein filed subsequent to the instant suit, appointed a Referee to determine whether the New York action should be stayed [285] pending trial of a similar action brought in Las Vegas, Nevada by the same plaintiffs as in this action, likewise filed after the instant action.

4. I am informed by way of the Hollywood Reporter dated November 11, 1953, pages 1 and 7 thereof, that Judge Di Falco stated:

“‘The record thus far before me is very persuasive that the Nevada jurisdiction was selected by defendant Hughes.’”

* * *

“the history of the Castleman suits, said that attorneys for Castleman evidently have abandoned the California suit and are in dispute with their legal counsel in California (Bernard Reich) concerning the status of the litigation there.”

5. In a document entitled “Reasons and Memorandum in Opposition to Notice of Cross-Motions for Certain Relief, Etc.,” dated October 16, 1953, I requested the appointment of a Special Master to undertake an investigation and inquiry into the conduct of all parties and their counsel.

6. I was informed by a New York attorney that

at least some of my affidavits here in California were used before Judge Di Falco in New York.

7. There is now pending before this Court to be heard on December 28, 1953, among other things, the following:

(a) Motion of defendant RKO Radio Pictures, Inc., for order dismissing the above-entitled action, or in the alternative for an order staying all proceedings in said action.

(b) Motion for an order that depositions be not taken. [286]

(c) Cross-motion of the New York lawyers for the plaintiffs to enjoin Bernard Reich from taking any further steps in this case as counsel for plaintiffs.

(d) Cross-motion by said New York counsel to substitute Henry Herzbrun (now deceased) for Bernard Reich as local attorney of record for the plaintiffs.

(e) Cross-motion to admit Louis Kipnis to this Court and designating Mr. Kipnis as lead counsel in this action.

(f) Cross-motion by New York attorneys to quash the notice of depositions noticed by Bernard Reich.

8. I respectfully incorporate by reference all of my affidavits heretofore made and on file, including:

(a) Affidavit of Bernard Reich in Support of

Motion to Vacate Order of Dismissal, sworn to September 9, 1953.

(b) Reply Affidavit of Bernard Reich in Opposition to Motion and Affidavit of Raymond A. Cook as Amicus Curiae, sworn to October 2, 1953.

(c) Reply Affidavit of Bernard Reich to Affidavit of Louis Kipnis and Leo B. Mittelman, sworn to October 1, 1953.

(d) Reply Affidavit of Bernard Reich to Affidavit of Roy W. McDonald, sworn to October 2, 1953.

9. I charge the defendants and plaintiffs' New York counsel with collusion in submitting the action to the Nevada Court. [287]

10. I charge New York counsel with failing to truly represent the stockholders of RKO in that the proceedings in Nevada are not truly adversary.

11. I charge the defendant Howard R. Hughes with removing himself from this jurisdiction and to Las Vegas, Nevada, after the commencement of this action and before the commencement of the Nevada action as part and parcel of a plan to deprive this Court of jurisdiction and to confer jurisdiction to the State of Nevada.

12. I charge New York counsel with the responsibility of plaintiffs' default on Mr. Hughes' motion to quash service on him, also as part and parcel of the plan and determination to deprive this Court

of jurisdiction and to confer jurisdiction on the Nevada Court.

13. I charge defendants, plaintiffs' New York counsel, and others with a plan, scheme and determination to abandon the California action, to have it dismissed without my knowledge and consent, and as part of the over-all plan to deprive this Court of jurisdiction.

14. I charge the defendants and plaintiffs' New York counsel with complete disinterest and indifference to the rights and interests of the thousands of stockholders of RKO. In this connection and solely for the purpose of indicating to this Court the need of the stockholders to protection, I quote from the stock report of October 20, 1953, of Standard & Poor's Corporation, as follows:

“RKO Pictures

“Stock—Common.....

“Approx. Price: 2 $\frac{3}{4}$.

“Dividend: None.

“Yield: None.

“Recommendation: This company came into being in its present form on January 1, 1951, when, under the terms of a consent decree, old RKO separated its picture making from its theatre [288] operations. Except for the war years, the company's pro-forma past record has been dismal, and its future is uncertain. The shares are not a suitable holding for the average investor and can be held only as an outright speculation.”

15. As to my position I quote from the transcript of the proceedings before this Court on October 19, 1953, page 14, lines 18 to 20 thereof, as follows:

“Mr. Reich: I will stipulate that my fees may be small. I will stipulate you don’t have to fix fees at all.

“The Court: You don’t have to so stipulate.”

16. I would summarize the situation as follows:

The first action was commenced in New York by plaintiffs’ New York counsel. They have however virtually abandoned this action.

The second action was filed by me in this Court on December 15, 1952.

The third action was filed by plaintiffs’ New York counsel in Las Vegas, Nevada, without my knowledge or consent. That action is set for trial for January 4, 1954. According to the defendants and plaintiffs’ New York counsel, prior to October 19, 1953, 17 depositions were taken in this complicated case numbering in all only about 1,100 pages. It is true that the Nevada action has proceeded swiftly, but I charge this to be part and parcel of the plan already referred to.

The next action was filed in New York by other stockholders, and it is in that action and on a motion to stay that action, that Judge Di Falco ordered an investigation. [289]

I am an attorney also admitted to practice in the State of New York. I aver that the New York action cannot be tried before the Nevada action and

will probably be tried no sooner than the Fall of 1954.

Judge Di Falco denied the petition to dissolve RKO. The New York Court has no effective jurisdiction of or even visitorial powers over the RKO companies and has absolutely no jurisdiction over Mr. Hughes.

On the other hand this Court has jurisdiction to dissolve the local RKO defendant and/or to appoint a receiver for its assets.

If my charges regarding Mr. Hughes are sustained this Court has jurisdiction over the defendant Hughes. Furthermore, I am informed and therefore allege on information and belief that Mr. Hughes has substantial assets in the State of California and within the jurisdiction of this Court so that he may be brought in by way of attachment of those assets.

The facts and incidents alleged in the amended complaint herein took place for the most part within this district of the Court. The books and records of the corporation are here. Most of the 17 witnesses whose depositions were taken in the Nevada action are residents of California.

This Court is in the best position to protect the interests of the stockholders.

19. On October 14, 1953, I wrote Honorable Frank McNamee, Judge, Eighth Judicial District, Las Vegas, Nevada, as follows:

“October 14, 1953.

“Honorable Frank McNamee, Judge,
“Eighth Judicial District,
“Court of Nevada,
“Las Vegas, Nevada. [290]

“Re: Castleman v. RKO, et al.,
Nevada Case No. 59422;

Castleman, et al., v. Hughes, et al.,
U.S.D.C. SD Cal. 14848-BH.

“Honorable Sir:

“I am California attorney for the plaintiffs in the California action, the plaintiffs being the same apparently as in the action before you.

“I have caused the file before you to be checked and but recently have noted letter on the stationery of Hughes Tool Company, Houston, Texas, addressed to you under date of May 4, 1953, and signed by T. A. Slack, Vice President and general counsel of Hughes Tool Company; also letter from attorney Louis Kipnis of New York for the plaintiffs addressed to you under date of May 11, 1953.

“My duty to the stockholders of RKO compels me to bring certain facts to your attention and to invite an appropriate inquiry. By so doing I have no intention of arguing the matter on the merits to you or to transfer jurisdiction from California to Nevada. I am sending a copy of this letter to various attorneys and persons indicated in Mr.

Slack's letter, although no copy of Mr. Slack's letter or Mr. Kipnis' letter was sent to me.

"The facts then briefly are as follows:

"Plaintiffs, by their attorney, Louis Kipnis, originally filed a minority stockholders' action in the Supreme Court of the State of New York in and for the County of New York, bearing number 14431-1952.

"Thereafter the same plaintiffs, through their New York attorney or attorneys retained me to file a similar action in the California courts. Upon my insistence the action was filed in the federal court and bears number 14848-BH. The original complaint [291] was filed on December 15, 1952.

"Thereafter plaintiffs' New York attorney withdrew in New York petition for a receivership under the circumstances recited in Exhibit 'A' to my affidavit made September 9, 1953, and filed in the Los Angeles Federal Court, a copy of which affidavit, among others, is enclosed herewith.

"The withdrawal of the petition for a receivership was done without my knowledge, as was the filing of the suit before your Court.

"The letters addressed to you dated respectively May 4, 1953, and May 11, 1953, were sent to you after I raised the question with my New York correspondents of the jurisdiction of your Court.

"It is not denied in any of the papers filed in the Federal Court here in Los Angeles that Mr. Hughes was a resident of the State of California when I filed the action on December 15, 1952.

"It is not denied that Mr. Hughes removed his residence to Las Vegas, Nevada, after the conference among the attorneys at Mr. Odlum's ranch in Indio, California, described in part in Mr. Slack's letter of May 4, 1953.

"On or about March 4, 1953, I filed in the Federal Court here plaintiffs' Amended Complaint which widened considerably the issues first presented by the complaint. I am informed that the complaint before you is similar to the original complaint here and has not been amended to reflect the issues presented by the amended complaint here.

"I then noticed the deposition of Mr. Hughes and was prepared to oppose (1) a motion by the defendant RKO for a security bond under the California State Law, and (2) a motion by the defendant Hughes to quash service of process on him. I was at first thwarted in this effort by the defendants acting in [292] concert with my New York correspondents.

"On June 26, 1953, my New York correspondents and counsel for the defendants succeeded in having entered an order which dismissed the action in California against all defendants; and notwithstanding the minute order of the Court and its rules, the proposed order was never served on me either before or after it was made by Honorable Ben Harrison, District Judge.

"On October 5, 1953, Judge Harrison granted my motion to vacate the invalid order made on June 26, 1953, in the following language:

"Court orders said motion granted. Counsel to prepare and present appropriate order for signature.'

"The above is the briefest of summaries. Enclosed herewith are copies of the papers filed before Judge Harrison and which, I submit, present a situation requiring inquiry from your Honor:

"1. Motion to Vacate Order of Dismissal, dated June 26, 1953.

"2. Notice of Hearing.

"3. Memorandum of Points and Authorities in Support of Motion to Vacate Order of Dismissal, dated June 26, 1953.

"4. Affidavit of Bernard Reich in Support of Motion to Vacate Order of Dismissal, sworn to September 9, 1953.

"5. Motion to Appear as Amicus Curiae and Affidavit of Raymond A. Cook in Support Thereof, sworn to September 18, 1953.

"6. Reply Affidavit of Bernard Reich in Opposition to Motion and Affidavit of Raymond A. Cook as Amicus Curiae, sworn to October 2, 1953.

"7. Affidavit of Louis Kipnis and Leo B. Mittelman in Opposition to Motion to Vacate Order of Dismissal, made June 26, [293] 1953, sworn to September 25, 1953.

"8. Reply Affidavit of Bernard Reich to Affi-

davit of Louis Kipnis and Leo B. Mittelman, sworn to October 1, 1953.

"9. Affidavit of Roy W. McDonald, sworn to September 25, 1953.

"10. Reply Affidavit of Bernard Reich to Affidavit of Roy W. McDonald, sworn to October 2, 1953.

"In addition I enclose a copy of the Amended Complaint filed here in the Federal Court.

"I was not present at the Cochran Ranch conference described in part by Mr. Slack in his letter addressed to your Honor, dated May 4, 1953. I learned of the conference after it was held. In his affidavit filed here, Mr. McDonald stated (pages 2 and 3) that he was informed that Mr. Hughes resides in Nevada and therefore he thought it for the best interests of the corporations who do no business in Nevada that they submit to the jurisdiction in which Mr. Hughes resides.

"In my reply affidavit (pages 1 and 2), which was one of the affidavits upon which Judge Harrison acted on October 5, 1953, I point out that Mr. McDonald does not state when Mr. Hughes removed his residence from California to Nevada; nor does he give any reason why all the parties could not appear in California where the actions and transactions complained about took place, and where the witnesses reside and where the pertinent books and records are located. The fact is that Mr.

Hughes removed himself to Nevada after the California action was filed.

"The fact is, furthermore, that the California action was filed before the Nevada action.

"The fact is, furthermore, that Nevada does not have any security law. [294]

"Why then should the defendants submit to a jurisdiction where they do not have the benefit of a security law? And why then should corporations who do no business in Nevada submit to the jurisdiction of that state?

"I submit to your Honor that the circumstances of these actions in New York, California and Nevada require careful scrutiny.

"I do not wish to minimize my dilemma. I owe a duty to the clients who have retained me. However, I believe I owe a higher duty to the courts of California and Nevada, and to the stockholders who constitute the class which I represent in California.

"My only interest is to fulfill my obligation to the courts and to the stockholders. That obligation compels me to make sure that the action before your Honor is truly adversary.

"I suggest that your Honor appoint a Special Master or Referee to investigate the circumstances surrounding the submission by the parties to the jurisdiction of your Court. I pledge my whole-

hearted cooperation within the limitations of my duty to all concerned.

“Respectfully yours,

“/s/ BERNARD REICH.

“Encls.

“CC: Louis Kipnis, Esq.,
George S. Leisure, Esq.,
Floyd B. Odlum,
Woodburn, Forman & Woodburn,
T. A. Slack, Esq.”

20. On or about October 17, 1953, Mr. Hughes' California and Nevada attorneys noticed a motion for a hearing on my letter of October 14, 1953, in Las Vegas, Nevada, all as set forth in Exhibit “A” attached hereto and made a part hereof. [295]

21. On October 21, 1953, I wrote defendant Hughes' Nevada attorneys as follows:

“October 21, 1953.

“Woodburn, Forman & Woodburn,
“206 N. Virginia Street,
“Reno, Nevada.

“Re: Castleman v. Walker, et al.,
Nevada Case No. 59422;

Castleman v. RKO Pictures Corpora-
tion, et al.,

New York Case No. 14431-1952;
Castleman, et al., v. Hughes, et al.,
California Case No. 14848-BH.

“Gentlemen:

“Yesterday I received in the mail your letter and Notice of Motion re hearing in Las Vegas, Nevada, on October 27, 1953.

“Today I received in the mail copy of Mr. Roy W. McDonald’s letter to Judge McNamee, dated October 19, 1953.

“In your Notice of Motion you state that I am beyond the jurisdiction of the Nevada Court and have not unequivocally agreed to bring myself within the jurisdiction of the Court.

“How would you have me submit myself to your jurisdiction? Will you stipulate to my coming in to your Court Amicus and/or would you consent to intervention by me or in behalf of the stock-holders?

So far as I am permitted I do not oppose your motion that the Court fix a date for hearing.

“I would ask only that a Special Master or Referee be appointed to conduct the investigation in Nevada, California, and New York.

“I would also like to be apprised of the rules of the investigation as to who shall have the right to examine and cross-examine. [296]

“I would propose that in addition to myself, testimony be taken from the following witnesses:

“1. All those present at the Cochran Ranch conference.

“2. Roy W. McDonald.

“3. T. A. Slack.

- “4. Louis Kipnis.
- “5. Leo B. Mittelman.
- “6. George S. Leisure.
- “7. Floyd B. Odlum.

“I would ask also that Judge Henry Clay Greenberg of the New York Supreme Court be informed of the pending proceedings.

“Very truly yours,

“/s/ BERNARD REICH.

“P.S. Inasmuch as I had your firm's name only from the letter of Mr. Slack to Judge McNamee, dated May 4, 1953, I assumed that your office was located in Vegas. My previous letter, therefore, came back with a notation ‘insufficient address.’

“P.P.S. Please forgive me for having my secretary sign my name to this letter as I am dictating the letter away from the office.

“BR.

“cc: Honorable Frank McNamee, Judge.

(For Filing.)

Honorable Ben Harrison, Judge U. S. District Court. (For Filing.)

T. A. Slack, Esq.

Louis Kipnis, Esq.

Donovan, Leisure, Newton & Irvine, Esqs.

Floyd B. Odlum, Esq.”

22. On October 23, 1953, I wrote Judge McNamee as follows: [297]

“October 23, 1953.

“Air Mail,

“Special Delivery.

“Honorable Frank McNamee, Judge,

“Eighth Judicial District Court,

“County Courthouse,

“Las Vegas, Nevada.

“Re: Castleman v. Walker, et al.,

Case No. 59422.

“Dear Judge McNamee:

“I have received a copy of Mr. McDonald’s letter to your Honor, dated October 19, 1953.

“In his letter Mr. McDonald assumes that I will appear for ‘such a hearing,’ give testimony, and submit myself ‘for proper cross-examination.’ May I inquire of him through the Court whether he will submit to proper cross-examination. After all, as he says, it is I who criticized counsel and the parties. It is I who called for the investigation into the circumstances of the submission of this cause to the Nevada Court. I did not submit the cause, however.

“I too have evidence which I propose to give to the Court when the Inquiry is set up. However, I do not propose to have counsel conduct the investigation or divert the investigation from its proper course.

"It now occurs to me that in addition to the witnesses suggested in my letter (October 21) to the moving parties' counsel, the following additional witnesses should be examined: All of the defendants, including Howard R. Hughes.

"In connection with Mr. Hughes, I stated in my letter to your Honor, dated October 14th:

"'It is not denied in any of the papers filed in the Federal Court here in Los Angeles that Mr. Hughes was a resident of the State of California when I filed [298] the action on December 15, 1952.

"'It is not denied that Mr. Hughes removed his residence to Las Vegas, Nevada, after the conference among the attorneys at Mr. Odlum's ranch in Indio, California, described in part in Mr. Slack's letter of May 4, 1953.'

"In Mr. Hughes' affidavit of October 13, 1953, filed in California, he stated:

"'More than nine months ago I became a resident of the State of Nevada * * *.'

"Nine months before October 13, 1953, is still after the filing of the California complaint.

"I mention this because the defendant would have you believe that (1) the defendant corporations who are foreign to your jurisdiction submitted themselves because Mr. Hughes lived or was about to live in Las Vegas, (2) the individual defendants, other than Mr. Hughes, and who are likewise foreign to your jurisdiction, submitted for the same

reasons, and (3) Mr. Hughes wanted to remove to Las Vegas anyway and administer the California studios from there. Please note that these defendants submitted to a jurisdiction which does not afford them the rights given in New York and California to require a substantial bond as security for costs and expenses, as witness Mr. McDonald's motion and affidavit (March 30, 1953) in the California action seeking \$35,000 'or more.'

"Mr. McDonald in his letter to you states that because of the diverse domiciles of the several defendants, 'there was no single state in which any dissident stockholder could secure jurisdiction of all the parties charged in this case.' It should be sufficient answer to ask:

"1. Since Mr. McDonald representing the corporations refused [299] to bring the action, necessitating a derivative action, and since Mr. McDonald does not represent any dissident stockholders, why is he concerned?

"2. If a single jurisdiction is required, why Nevada? Why not California where Mr. Hughes resided when that prior action was filed?

"3. Why wasn't California chosen where Mr. Hughes alone was named as the individual defendant?

"(Note: Counsel will answer that Hughes removed to Nevada, begging the whole question.)

"I do not suggest that this is all the evidence I propose to present. I believe that a full inquiry of

all the witnesses suggested will disclose collusion and in any event that Messrs. Kipnis and Mittelman are not true adversaries.

"I do not understand from the motion, which incidentally was not addressed to me, that the inquiry will be made on the 27th. Having invited the inquiry, obviously I welcome it.

"I am certain it is apparent to your Honor that neither the parties under investigation nor their counsel should conduct the investigation. It is respectfully suggested that a Special Master or Referee be appointed to take testimony in New York, California and Nevada.

"One further thing: Mr. Kipnis, as he tried before the California Court, will attempt to prejudice your Honor against me by asserting that I stated that justice could not be obtained in your Court. May I say that it wasn't more than a month or so ago that I even knew that your Honor was to try the case, and may I be presumptuous enough to say that what little inquiry I made of one or two of the lawyers here in Los Angeles was entirely favorable to your Honor. [300]

"If you examine into Mr. Kipnis' assertions in this connection, and call for his complete file, you will find that what I undoubtedly said was that under the circumstances the submission of the parties to the Nevada jurisdiction was highly suspect.

"And, without intending any reflection whatsoever on your Honor, I submit that I have made it clear that it is, and that the entire matter invites a full and complete investigation not by the accused but by the Courts.

"Respectfully yours,

"*/s/ BERNARD REICH.*

"cc: Honorable Ben Harrison, District Judge.

(For Filing.)

Roy W. McDonald, Esq.

Louis Kipnis, Esq.

T. A. Slack, Esq.

Woodburn, Forman & Woodburn.

A. W. Ham, Jr., Esq.

Morse & Graves.

Floyd B. Odlum, Esq.

"P.S. Please forgive my secretary signing my name to this letter as I am dictating the letter away from the office.

"BR."

23. On October 26, 1953, I telegraphed Judge McNamee as follows:

"Kipnis Letter Twenty-fourth Irresponsible, Including Alleged Reasons for My Not Signing Letters. I Was in Cedars of Lebanon Hospital. I Re-affirm My Letters and Offer of Full Cooperation at Your Repeat Your Invitation." [301]

24. On October 27, 1953, Judge McNamee de-

nied Mr. Hughes' motion for a hearing on my charges of October 14, 1953.

25. On October 30, 1953, I wrote Judge McNamee as follows:

“October 30, 1953.

“Honorable Frank McNamee, Judge,
“Eighth Judicial District Court,
“County Courthouse,
“Las Vegas, Nevada.

“Re: Castleman v. Walker, et al.,
Case No. 59422.

“Dear Judge McNamee:

“I received today a copy of Mr. Kipnis' letter dated October 27, 1953.

“On October 26th I telegraphed you as follows:

“ ‘Kipnis Letter Twenty-fourth Irresponsible, Including Alleged Reasons for My Not Signing Letters. I Was in Cedars of Lebanon Hospital. I Reaffirm My Letters and Offer of Full Cooperation at Your Repeat Your Invitation.’

“I do not care to extend this correspondence re Mr. Kipnis, except to state to you that his letters are false in every material particular, expressed or implied.

“I am concerned, however, with the United Press dispatch of October 27th in which you are quoted as having rejected charges that collusion between attorneys led to the dropping of the suit in Cali-

fornia and that my action in bringing the charges but refusing to appear in court was 'ill-advised.'

"I made no motion in your Court. The motion was made by Mr. Hughes' attorneys. You denied the motion as you had a right to do.

"You did not invite me to appear in your Court. I was invited [302] by the accused who are trying to pull themselves up by their boot straps by making motions as between themselves. It is similar to the situation of one golfer conceding a long putt to his own partner. Why should I come to Nevada at the invitation of Hughes' attorneys to be checked by the defendants' attorneys and cross-checked by plaintiffs' New York attorneys.

"I asked to be invited as Amicus or as an Intervener. I asked that you appoint a Special Master to take not only my evidence but the evidence of the accused and the various witnesses.

"My interest is not fees. It is only that 'right be done.' I have a duty to the Courts which I intend to fulfill. I will not, however, submit on terms dictated by the accused.

"Respectfully yours,

"*/s/ BERNARD REICH.*

"cc: Honorable Ben Harrison, U.S.D.C. Judge.

(For Filing: 14848-BH.)

Louis Kipnis, Esq.

Woodburn, Forman & Woodburn, Esqs.

Floyd B. Odlum, Esq."

26. As matters now stand the Nevada court has not ordered an investigation. On the other hand the New York Court in connection with the last action filed has ordered an investigation and only in connection with defendants' motion to stay the New York action. Thus, even if the Referee appointed in New York finds collusion the New York Supreme Court can only deny the motion for a stay. The Nevada action will then proceed. Hence this Court is in the best position to order an effective investigation and proceed with this cause.

27. I respectfully urge this Court to grant the within [303] motion in all respects.

/s/ BERNARD REICH.

Subscribed and sworn to before me this 13th day of November, 1953.

[Seal] /s/ HELEN SPARKMAN,
Notary Public in and for the County of Los Angeles, State of California. [304]

EXHIBIT A

(Copy)

Filed: 11:53 a.m. October 17, 1953.

HELEN SCOTT REED,
Clerk.By FRANCES PETTINGILL,
Deputy.

Case No. 59422

Dept. No. 1

In the Eighth Judicial District Court of the State
of Nevada in and for the County of ClarkELI B. CASTLEMAN and MARION V. CASTLE-
MAN, Doing Business as WOLVERINE TEX-
TILE COMPANY, and LOUIS FEUERMAN,

Plaintiffs,

vs.

J. MILLER WALKER, FRANCIS J. O'HARA,
JR., HOWARD R. HUGHES, NOAH DIET-
RICH, NED E. DEPINET, HUGHES TOOL
COMPANY, RKO PICTURES CORPORA-
TION and RKO RADIO PICTURES, INC.,

Defendants.

NOTICE OF MOTION

To: Eli B. Castleman and Marion V. Castleman,
Doing Business as Wolverine Textile Company,
and Louis Feuerman, and Their Attorneys,
Louis Kipnis and David Zenoff.J. Miller Walker, Francis J. O'Hara, Jr.,
Noah Dietrich, Ned E. Depinet, and Their At-

torneys, Manly Fleischmann and Morse & Graves.

RKO Pictures Corporation and RKO Radio Pictures, Inc. and Their Attorneys, Donovan, Leisure, Newton, Lumbard and Irvine and Ham and Ham.

You and Each of You will please take notice that the undersigned will move this Honorable Court at Las Vegas, Nevada, on the 27th day of October, 1953, at 11:00 a.m. or as soon thereafter as counsel can be heard, to order a hearing with respect to certain charges made by one Bernard Reich in a written communication to the above-entitled Court, bearing date of [305] October 14, 1953, a copy of which is attached hereto and marked "Exhibit A"; by way of explanation and not to limit the generality of the inquiry hereby moved upon the Court, movant points out that apparently Bernard Reich is beyond the jurisdiction of this Court and in the communication aforesaid has not unequivocally agreed to bring himself within the jurisdiction of the Court for the purposes of investigating the charges which he proposes to make.

Movant therefore requests the Court to make the order of investigation broad and comprehensive enough that whatever measures seeming necessary may be taken to procure the oral testimony of the aforesaid Bernard Reich and to cause to be introduced in evidence at such hearing any other evidence of any kind which might be made as to the truth or falsity of the implications of the said letter of Bernard Reich, and that this Court make full

use of its powers and jurisdiction to bring about a full and complete hearing upon the matter set forth.

Dated this 17th day of October, 1953.

T. A. SLACK,

7000 Romaine Street,

Hollywood 38, California;

WOODBURN, FORMAN &
WOODBURN,

By WM. K. WOODBURN,

206 N. Virginia Street,

Reno, Nevada;

Attorneys for Defendants Howard R. Hughes and
Hughes Tool Company.

Affidavit of Service by Mail attached.

[Endorsed]: Filed November 16, 1953. [306]

[Title of District Court and Cause.]

MINUTES OF THE COURT—OCT. 19, 1953

Present: The Hon. Ben Harrison,
District Judge.

Counsel for Plaintiffs: Harry Silver and
Louis Kipnis;

Counsel for Applicants for Intervention:
J. J. Brandlin;

Counsel for Defendants: Guy Knupp for
def't RKO Radio Pictures, Inc.

Bernard Reich, Esq., respondent in Mo-
tion (2) infra, and one of attorneys of
record for plaintiffs.

Proceedings: For hearing motion.

(1) Of Harry Rosenthal and Gertrude Rosenthal to intervene as plaintiffs, pursuant to notice, and motion, filed Oct. 2, 1953, (copy of complaint in intervention attached to said motion);

(2) For hearing cross-motion and motion of plaintiffs for orders:

(a) Staying consideration of the motion of Harry Rosenthal and Gertrude Rosenthal to intervene, etc.

(b) Enjoining Bernard Reich, Esq., from taking any further steps in this case as alleged counsel for the plaintiffs;

(c) Substituting Henry Herzbrun, Esq., for said Bernard Reich, Esq., as local attorney of record for the plaintiffs herein;

(d) Admitting Louis Kipnis of the New York Bar, pro hac vice, and designating said Louis Kipnis, Esq., as lead counsel for the plaintiffs herein;

(e) Quashing the notice, dated Oct. 5, 1953, heretofore served by the said Bernard Reich, Esq., to take the depositions of Howard Hughes and Ross Hastings as officers and/or employees of the defendants, RKO Pictures Corp., and RKO Radio Pictures, Inc., and

(f) Granting such other and different relief as to the court may seem just in the premises, pursuant to motion, notice, order shortening time for service

of said motion, and points and authorities, filed Oct. 13, 1953;

(3) For hearing motion of def't RKO Radio Pictures, Inc., for order dismissing this action, or in the alternative, for an order staying all proceedings herein, pursuant to motion, notice, affidavit of Howard R. Hughes, affidavit of Roy W. McDonald, Memo. of points and authorities, and order shortening time for service of said motion, filed Oct. 13, 1953;

(4) For hearing motion of def't RKO Radio Pictures, Inc., for an order that depositions of Ross R. Hastings and of Howard R. Hughes, be not taken, pursuant to notice, motion, affidavit of Guy Knupp, and order shortening time for service of said motion, filed Oct. 13, 1953.

On motion of Attorney Silver, of counsel for plaintiffs, It Is Ordered that Louis Kipnis, Esq., of the New York Bar, is allowed to practice in this Court for the purposes of this case only.

Attorney Brandlin makes a statement to the Court in support of motion (1).

Attorney Reich makes a statement that he represents the plaintiffs and has no objection to granting of motion (1).

Attorney Kipnis makes a statement that he appears for the plaintiffs and that Bernard Reich is *functus officio* herein.

Attorneys Reich, Silver, and Kipnis make statements to the Court.

Attorney Brandlin makes a further statement in support of Motion (1).

The Court makes a statement. Attorney Kipnis makes a further statement in opposition to motion (1).

The Court makes a further statement and orders all further proceedings and the motions on the calendar today continued to Dec. 28, 1953, 10 a.m.

Att'y's Reich and Kipnis and the Court make further statements.

EDMUND L. SMITH,
Clerk.

By MURRAY E. WIRE,
Deputy Clerk. [309]

[Title of District Court and Cause.]

MINUTES OF THE COURT—NOV. 30, 1953

Present: The Hon. Ben Harrison,
District Judge.

Counsel for Plaintiffs: Bernard Reich;
Harry Silver.

Counsel for Defendants: No appearance.

Proceedings:

For hearing motion of Bernard Reich, Esq., attorney of record for the plaintiffs, for appointment of a Special Master, pursuant to Rule 53 of FRCP,

pursuant to motion, notice, and affidavit of Bernard Reich, filed Nov. 16, 1953.

Attorney Reich makes a statement.

The Court makes a statement.

Attorney Reich makes a further statement.

It Is Ordered that cause is continued to Dec. 14, 1953, 10 a.m., for further hearing.

EDMUND L. SMITH,
Clerk.

By MURRAY E. WIRE,
Deputy Clerk. [347]

[Title of District Court and Cause.]

MINUTES OF THE COURT—DEC. 14, 1953

Present: The Hon. Ben Harrison,
District Judge.

Counsel for Plaintiffs: Bernard Reich and
Robert Silver.

Counsel for Defendants: Guy Knupp for
def't RKO Radio Pictures, Inc.

Proceedings:

For further hearing motion of Bernard Reich, Esq., Local Attorney of record for plaintiffs, for appointment of a Special Master, pursuant to Rule 53 of FRCP, pursuant to motion, notice, and affidavits of Bernard Reich, filed Nov. 16, 1953.

Attorney Reich makes a statement to the Court.

Court Orders that the further hearing of said motion is continued to the end of the calendar.

Later, at 10:45 a.m., all being present as before.

Attorney Reich makes a further statement and argues further in support of said motion for the appointment of a Special Master.

Each of Attorneys Silver and Knupp makes a statement.

Court Orders that said motion for appointment of a Special Master is stricken from the calendar and held in abeyance until after the trial of the Nevada action.

It Is Further Ordered that the motions heretofore continued to Dec. 28, 1953, 10 a.m., for hearing are also stricken from the calendar and held in abeyance until after the trial of the Nevada action.

EDMUND L. SMITH,
Clerk.

By MURRAY E. WIRE,
Deputy Clerk. [348]

[Title of District Court and Cause.]

MINUTES OF THE COURT—DEC. 29, 1953

Present: The Hon. Ben Harrison,
District Judge.

Counsel for Plaintiffs: No appearance.

Counsel for Defendants: No appearance.

Proceedings:

It Is Ordered that this cause be, and it is placed on the calendar of Jan. 11, 1954, 10 a.m., for hearing on the settlement of order vacating the order of dismissal of June 26, 1953; and the clerk is directed to notify counsel.

Mailed notices to counsel.

EDMUND L. SMITH,
Clerk.

By MURRAY E. WIRE,
Deputy Clerk. [349]

[Title of District Court and Cause.]

MINUTES OF THE COURT—JAN. 11, 1954

Present: The Hon. Ben Harrison,
District Judge.

Counsel for Plaintiffs: Bernard Reich and
Robert Silver.

Counsel for Defendants: Guy Knupp for
def't RKO Radio Pictures, Inc.

Proceedings:

For hearing on the settlement of form of order vacating the order of dismissal of June 26, 1953.

The Court makes a statement.

Attorney Reich makes a statement.

Attorney Knupp makes a statement.

The Court states that order will be signed later.

EDMUND L. SMITH,
Clerk.

By MURRAY E. WIRE,
Deputy Clerk. [350]

[Title of District Court and Cause.]

**PROPOSED ORDER VACATING DISMISSAL
OF ACTION DATED JUNE 26, 1953**

By motion dated August 11, 1953, plaintiffs, by their attorney, Bernard Reich, moved to vacate the order of dismissal made and entered herein on June 26, 1953, on the grounds (1) that the order of June 26, 1953, purported to afford relief beyond that which was applied for by, and was different in kind from the demand in, the motion or motions, (2) that the said order purported to be wider in scope and afforded relief beyond that which was directed by minute order. (3) that the defendants failed to comply with the said minute order in that plaintiffs' attorneys were not served with any pro-

posed order, (4) that the defendants did not comply with Local Rule 7(a), and (5) that justice requires the vacation of the said order.

The said motion was based on the records and files of the [351] Court, the Notice of Hearing dated August 11, 1953, for the 5th day of October, 1953, Plaintiffs' Memorandum of Points and Authorities dated August 11, 1953, all duly served and filed, and Affidavit of Bernard Reich to be filed.

Thereafter the Affidavit of Bernard Reich in Support of Motion to Vacate Order of Dismissal Made June 26, 1953, and sworn to September 9, 1953, was duly served and filed.

Thereafter Raymond A. Cook, an attorney at law in the State of Texas, and theretofore permitted by this Court to appear in this action on behalf of the defendant Howard R. Hughes, filed a motion to appear as amicus curiae, and in support thereof filed an affidavit sworn to September 18, 1953. Said motion and affidavit was received by said Bernard Reich on September 19, 1953.

Thereafter said Bernard Reich filed document entitled "Reply Affidavit of Bernard Reich in Opposition to Motion and Affidavit of Raymond A. Cook as Amicus Curiae," sworn to October 2, 1953, which affidavit was duly served.

Thereafter Henry Herzbrun and Robert Silver filed a document entitled "Affidavit of Louis Kipnis and Leo B. Mittelman in Opposition to Motion to Vacate Order of Dismissal Made June 26, 1953,"

which affidavit was sworn to September 25, 1953, and in which said Henry Herzbrun and Robert Silver designated themselves as "Attorneys in Opposition of Motion to Vacate Order of Dismissal Made June 26, 1953."

Thereafter Bernard Reich filed document entitled "Reply Affidavit of Bernard Reich to Affidavit of Louis Kipnis and Leo B. Mittelman," sworn to October 1, 1953, which affidavit was duly served.

Thereafter defendant RKO Radio Pictures, Inc., filed the affidavit of Roy W. McDonald, sworn to September 25, 1953, which [352] affidavit was received in the mail by said Bernard Reich on October 1, 1953.

Thereafter said Bernard Reich filed document entitled "Reply Affidavit of Bernard Reich to Affidavit of Roy W. McDonald," sworn to October 2, 1953, which affidavit was duly served.

At the time of the filing of said reply affidavits plaintiffs, by their attorney, Bernard Reich, filed document dated October 2, 1953, entitled "Supplemental Memorandum of Points and Authorities in Support of Motion to Vacate Order of Dismissal Dated June 26, 1953."

Plaintiffs' motion to vacate the order of June 26, 1953, came on for hearing before this Court, Honorable Ben Harrison, District Judge, presiding, on the 5th day of October, 1953.

At the same time there came on for hearing

the motion of the defendant Howard R. Hughes for his attorney Raymond A. Cook to appear as amicus curiae.

At the said time; Bernard Reich appeared for the plaintiffs; Mitchell, Silberberg & Knupp and Donovan, Leisure, Newton & Irvine by Guy Knupp appeared for the defendant RKO Radio Pictures, Corp.; Raymond A. Cook appeared as proposed amicus curiae; and Henry Herzbrun's appearance was noted, although he did not appear.

The Court makes the following Findings of Fact:

(a) The order of June 26, 1953, afford relief beyond that which was applied for by, and is different in kind from the demand in, the motion of the defendant Howard R. Hughes, heard June 8, 1953.

(b) The order of June 26, 1953, purports to be wider in scope and affords relief beyond that which was directed by the minute order after hearing on said defendant Hughes' motion. [353]

(c) The defendants failed to comply with the said minute order in that plaintiffs' local attorney of record, Bernard Reich, was not served with the proposed order ultimately made June 26, 1953.

(d) Defendants did not comply with Local Rule 7(a) in that the proposed order ultimately made June 26, 1953, was not approved or disapproved by plaintiffs' local attorney of record, Bernard Reich.

(e) Justice requires the vacation of the said order of June 26, 1953.

(f) No notice of the dismissal of the action was given to the stockholders of the defendants pursuant to Rule 23 of the Federal Rules of Civil Procedure.

(g) Raymond A. Cook has heretofore appeared as attorney for the defendant Howard R. Hughes and is a partisan.

(h) Henry Herzbrun and Robert Silver are not attorneys of record for any of the parties to the action.

(i) Louis Kipnis and Leo B. Mittelman are not attorneys admitted to practice before this Court in this or any other action.

(j) None of the defendants have filed any memorandum of points and authorities or any memorandum pursuant to Local Rule 3(d) giving reasons why the motion of the plaintiffs should not be granted.

(k) The order of June 26, 1953, was made by this Court through inadvertence and was improperly presented to it.

The Court makes the following Conclusions of Law:

(a) The order of June 26, 1953, is invalid on its face and plaintiffs are entitled to have the said order vacated. [354]

(b) Raymond A. Cook is not entitled to appear in this action as amicus curiae.

(d) The defendants are deemed to have con-

sented to the granting of the plaintiffs' said motion to vacate the order of dismissal of June 26, 1953.

(d) Justice requires that the motion to vacate be granted.

Now, Therefore, It Is Ordered as Follows:

1. Plaintiffs' motion dated August 11, 1953, to vacate order of dismissal dated June 26, 1953, is granted, and the said order of dismissal dated June 26, 1953, is hereby vacated; except that the Court does not vacate that part of the order quashing the service on the defendant Howard R. Hughes.

2. Defendant Howard R. Hughes' motion for his attorney Raymond A. Cook to appear as amicus curiae is in all respects denied.

Dated: This day of December, 1953.

.....,

District Judge.

Receipt of copy acknowledged.

[Endorsed]: Filed October 20, 1954. [355]

In the District Court of the United States, Southern
District of California, Central Division

No. 14848-BH

ELI B. CASTLEMAN and MARION V. CASTLE-
MAN, Doing Business as WOLVERINE TEX-
TILE COMPANY, and LOUIS FEUERMAN,

Plaintiffs,
vs.

HOWARD R. HUGHES, RKO PICTURES COR-
PORATION, RKO RADIO PICTURES,
INC., and THE CHASE NATIONAL BANK
OF THE CITY OF NEW YORK,

Defendants.

ORDER VACATING ORDER DISMISSING
ACTION

On the 26th day of June, 1953, the above-entitled Court made and entered an Order in the above-entitled action, which said Order in part reads as follows:

“It is, therefore, Ordered and Decreed that the return of service of summons as to the defendant, Howard R. Hughes, be and the same is hereby quashed.

“It further appearing to the Court by the record in this action that there is another action pending in the State of Nevada in which the same plaintiffs herein are the plaintiffs,

and in which additional necessary defendants are joined, with all parties properly before the Court; that such action is being actively prosecuted before that Court; and that the relevant Nevada Rules of Civil Procedure are [357] identical with the Federal Rules of Civil Procedure governing actions of this type.

“It is, accordingly, further Ordered and Decreed that this action be, and the same is hereby dismissed without prejudice, the taxable costs of court exclusive of attorneys’ fees to be adjudged against the plaintiffs in the within action.”

Thereafter, and on August 11, 1953, a motion was made to vacate the Order insofar as it purported to dismiss the above-entitled action, and said motion, having been duly argued and the Court being fully advised in the premises, finds and determines that that portion of said Order dismissing said action was inadvertently made and entered, and that it was not the intent of the Court to enter any Order dismissing said action.

Now, Therefore, It Is Hereby Ordered that that portion of said Order made and entered herein on June 26, 1953, reading as follows:

“It further appearing to the Court by the record in this action that there is another action pending in the State of Nevada in which the same plaintiffs herein are the plaintiffs, and in which additional necessary defendants are

joined, with all parties properly before the Court; that such action is being actively prosecuted before that Court; and that the relevant Nevada Rules of Civil Procedure are identical with the Federal Rules of Civil Procedure governing actions of this type.

"It is, accordingly, further Ordered and Decreed that this action be, and the same is hereby dismissed without prejudice, the taxable costs of court exclusive of attorneys' fees to be adjudged against the plaintiffs in the within action." [358]

should be, and the same is hereby vacated and set aside, and that the remainder of said Order, reading as follows:

"It is, therefore, Ordered and Decreed that the return of service of summons as to the defendant, Howard R. Hughes, be and the same is hereby quashed."

shall be and remain in effect.

Dated: Jan. 11, 1954.

/s/ BEN HARRISON,

United States District Judge.

[Endorsed]: Filed January 11, 1954.

Judgment docketed and entered January 12, 1954. [359]

[Title of District Court and Cause.]

MOTION TO VACATE IN PART ORDER
ENTERED JANUARY 12, 1954, AND FOR
OTHER RELIEF

Plaintiffs move to vacate so much of the order herein entered January 12, 1954, vacating the order of June 26, 1953, which does not vacate in its entirety the order of June 26, 1953, and which grants the quashing of the service of process on the defendant Howard R. Hughes.

Plaintiffs move to set aside plaintiffs' default on the said defendant's motion to quash service of process on him, heard June 8, 1953.

Plaintiffs move in the alternative for the appointment of a Special Master with maximum powers, all in accordance with Rule 53 of the Federal Rules of Civil Procedure, to investigate, receive and report all evidence, and make findings concerning the residence of the defendant Howard R. Hughes and the [361] allegations of Bernard Reich set forth in his affidavit submitted herewith, and including but not limited to the facts and circumstances concerning plaintiffs' default on defendant Hughes' motion to quash service and the purported removal of the defendant Hughes from the State of California to the State of Nevada.

The grounds of the said motions are as follows:

1. All of the grounds set forth in Rule 60, subdivision (b) of the Federal Rules of Civil Procedure, except Reason numbered 5 of the said Rule.

2. The default of the plaintiffs on the defendant Hughes' motion to quash service of process on him was obtained as part and parcel of a conspiracy and collusive agreements to deprive this Court of jurisdiction of this case and to confer jurisdiction on the state court of Nevada.

The motions will be based on the following:

1. The records and files of this Court.
2. The Notice of Hearing herein.
3. Affidavit of Bernard Reich in support of the motions.
4. Plaintiffs' Memorandum of Points and Authorities.

Dated: February 1, 1954.

· /s/BERNARD REICH,
Attorney for Plaintiffs. [362]

[Title of District Court and Cause.]

AFFIDAVIT OF BERNARD REICH IN SUPPORT OF MOTION TO VACATE PART OF ORDER OF JANUARY 12, 1954, AND FOR OTHER RELIEF

State of California,
County of Los Angeles—ss.

Bernard Reich being first duly sworn, deposes and says:

1. I am local attorney of record for the plaintiffs in the above-entitled action.

2. (a) Louis Kipnis and Leo B. Mittelman, whose address is 111 Broadway, New York 6, New York, are New York attorneys who appear with me as attorneys for the plaintiffs, although they are not licensed to practice in the State of California and have not been admitted for the purposes of this case.

(b) Donovan, Leisure, Newton & Irvine of 2 Wall Street, New York 5, New York, have appeared in this action as attorneys [378] for defendant RKO Radio Pictures, Inc.

(c) Thomas A. Slack of 7000 Romaine Street, Hollywood 38, California, and Raymond A. Cook of Texas, have appeared as attorneys for the defendant Howard R. Hughes.

(d) Mitchell, Silberberg & Knupp of Los Angeles, have appeared as attorneys for the defendant RKO Radio Pictures, Inc.

(e) Robert Silver of 118 S. Beverly Drive, Beverly Hills, California, has purported to appear as attorney for the plaintiffs, although there has been no substitution of attorneys.

3. On Saturday, December 13, 1952, I received a telephone call from New York from Messrs. Kipnis and Mittelman retaining me to file suit in behalf of the plaintiffs. On Monday, December 15, 1952, I filed this suit.

4. Mr. Kipnis had previously filed a similar suit in the Supreme Court of the State of New York and there was pending before New York Supreme

Court Justice Henry Clay Greenberg Mr. Kipnis' motion for the appointment of a receiver.

5. On December 26, 1952, I read in the trade papers and learned for the first time that plaintiffs had filed a derivative action in the state court in Las Vegas, Nevada. I was not informed by Messrs. Kipnis and Mittelman of their intentions to file such suit.

6. (a) On January 27, 1953, a local trade paper reported that the motion in New York for the appointment of a receiver had been withdrawn. Attached to my affidavit of September 9, 1953, and marked Exhibit "A" is a true copy of the said article purporting to recite the proceedings before Mr. Justice Greenberg.

(b) The motion for the appointment of a receiver was withdrawn in New York not only without my consent but without [379] my knowledge or prior consultation.

7. I have caused the Nevada complaint to be compared with the original complaint filed herein, and except for jurisdictional allegations the two complaints are identical. However, the amended complaint in this action introduced many additional issues. Just recently the Nevada complaint was amended and it is now similar to the complaint here which I amended.

8. (a) On or about February 4, 1953, I received a notice from the Court that the action had been placed on the calendar pursuant to Rule 16 for Monday, February 9, 1953.

(b) On February 5, 1953, I wrote to Judge Harrison asking his indulgence until I had an opportunity to confer with New York counsel personally in New York City. I received notice from the clerk that the hearing scheduled for February 9th had been continued to March 2, 1953.

9. I was in New York from on or about February 11th, 1953, to February 18, 1953. I conferred with New York counsel in my room at the Hotel Warwick. What took place at this conference I told this Court on December 14, 1953. I hereby reaffirm my statements to the Court on that date under oath now.

10. At that conference in New York City, New York counsel agreed that I should amend the complaint. I so informed Judge Harrison on March 2, 1953.

11. (a) The amended complaint herein was filed on March 4, 1953, and service was thereafter made on the defendant Howard R. Hughes at the Beverly Hills Hotel and on RKO Radio Pictures, Inc., at its Los Angeles studio. The defendant RKO Pictures Corporation refused to submit to process on the ground that it was not doing business in California. [380]

(b) The defendant RKO Radio Pictures, Inc., was served not only with process but with a Notice of the Taking of the Deposition of its officer and employee, the defendant Howard R. Hughes.

12. With respect to the Nevada action, I learned that Mr. Hughes had submitted himself to the juris-

diction in Nevada as did the defendant RKO Pictures Corporation, notwithstanding it did no more business in the State of Nevada than it did in the State of California. I learned for another thing that Nevada has no security law such as may be available to defendants in the State of California. From the U. S. Marshal I learned that Mr. Hughes had purported to renounce his Beverly Hills residence for Las Vegas, Nevada, apparently between the time this action was filed and the complaint was amended and served at the Beverly Hills Hotel, and shortly before he accepted service of process in the Nevada action.

13. Messrs. Kipnis and Mittelman, by letter and by telephone, importuned me and instructed me to withdraw the Notice of Mr. Hughes' deposition. I told them that the deposition was necessary on the issue of any application for security. They both assured me that no such motion would be made and if made they would consider it an act of bad faith and that I would then be free to notice Mr. Hughes' deposition. I complied with their request; but soon thereafter was served with two sets of motion papers, one in behalf of the defendant Howard R. Hughes to quash the service on him on the ground that he was not at the time of purported service a resident of Beverly Hills, California, but had removed to Las Vegas, Nevada. The second was a motion in behalf of the defendant RKO Radio Pictures, Inc., for security pursuant to the Corporations Law of the State of California. Mr. Hughes' motion to quash did not [381] give the date when

he removed to Las Vegas, Nevada, and my affidavits to the effect that Mr. Hughes did not purport to renounce his Beverly Hills residence until after this action was filed have not been denied.

14. Both motions were made returnable April 13, 1953; I noticed Mr. Hughes' deposition for April 9, 1953.

15. Again Messrs. Kipnis and Mittelman importuned me to withdraw the notice of Mr. Hughes' deposition. Not wanting to be a part of any plan to deprive this Court of jurisdiction and to convey that jurisdiction to Nevada, I refused; but it was agreed not only by New York counsel but by defendants' counsel here that Mr. Hughes' motion to quash process would go over to April 27, 1953, and RKO's motion for security would go over to June 8, 1953.

16. On April 20, 1953, I wrote to Mr. Mittelman as follows:

"Air Mail.

"Special Delivery.

"Leo B. Mittelman, Esq.,

"111 Broadway,

"New York 6, New York.

"Re: Castleman v. Hughes.

"Dear Leo:

"There is nothing in my letter of April 13th which could have properly provoked your tirade of

April 16, 1953, unless you were prompted by some deep-rooted feelings of your own which have little or nothing to do with me.

"I would suggest that you don't write to me in this fashion again.

"I would suggest further that you make an application to substitute me out of the case.

"In any event I am giving consideration to laying the entire [382] matter, including our exchange of correspondence, before Judge Harrison.

"A fair review of what has happened is as follows:

"1. You retained me to file suit in California on the basis of a minimum of 10% of the fees received by us in all actions. Additional fees to me were to be fixed by Bernie Fischman.

"2. Without consulting me or apprising me of the facts, Kipnis met with Hughes and Floyd Odlum at the Cochran Ranch.

"3. You filed in Nevada and Texas without discussing same with me and without my knowledge.

"4. You dropped receivership proceedings in New York without consulting me and without my knowledge.

"5. You and Kipnis met with me in my hotel room and advised me that the defendants had agreed to submit to the jurisdiction in Nevada, where there was no law regarding security. You

advised me that you had a satisfactory understanding with the defendants and that you hoped to settle the matter in Nevada after some adversary proceedings. You agreed with me that for safety's sake the action in California should stand by.

"6. Since Judge Harrison had already had me up pursuant to Rule 16, you authorized me to tell Judge Harrison that I would file an amended complaint and serve, which is what Judge Harrison insisted on.

"7. Between the time of the original filing and the amended complaint filing, Hughes left the Beverly Hills Hotel for Las Vegas.

"8. The parent company refused to submit to the jurisdiction here, although it submitted in Nevada.

"9. Another plaintiff has now filed in the federal and state courts. [383]

"10. When Guy Knupp and I appeared before Judge Harrison to put over Slack's motion to vacate process on Hughes to June 8th, the same date as the motion for security, Judge Harrison stated that he was looking for some way to dismiss the action inasmuch as a similar action was filed by the same plaintiffs in Nevada. I told Judge Harrison that I wanted the California action to be a standby action and asked him that if we could keep the action quiescent and not trouble him with motions whether he would not keep the action. He didn't directly

answer me, but I felt confident that if this could be done Judge Harrison would cooperate.

"11. Referring directly to your letter of April 16th:

"(a) With respect to the second paragraph thereof: Defendants' motions were not precipitated by my unilateral decision to attempt to serve the defendants. Judge Harrison insisted on service. All our prior correspondence did not refer merely to filing an amended complaint and not to serving same. I informed you that I was going to serve. I informed you further that Judge Harrison insisted that I serve.

"(b) With respect to the third paragraph thereof: I don't give a damn that the motions were evoked by my attempted service, and I don't care whether you control or don't control the defendants or their counsel.

"(c) With respect to the fourth paragraph thereof: Kipnis and Slack have agreed that the motion to quash Hughes' service shall go over to June 8th. The court has agreed that the matter shall go over to June 8th and I will appear on April 27th to effectuate the continuance. [384]

"(d) With respect to the seventh paragraph thereof, page 3: I answered your letter of January 23rd fully by indicating the amendments to the complaint which you approved, and which were subsequently put in as the amended complaint.

What's that go to do with my letter of April 8th concerning a deposition of Howard Hughes?

"(e) With respect to paragraph fifteen thereof: I can endure any reasonable restraint, but I will not be abused by you or deterred from what I think is my duty in this case. I don't understand, furthermore, what you mean that your obligation to me will survive the California action.

"(f) With respect to paragraph nineteen, fourth paragraph from the bottom of page 3: On what do you base your belief that it would not be possible to attach Hughes' personal property in California?

"(g) With respect to the last paragraph thereof: You say that you do not wish me to offer any resistance to Hughes' motion. However, how about the motion for security? Have you forgotten that you once told me that the motion for security, if made, would be in bad faith? I want to know now and at the same time what your instructions are regarding both motions.

"Now get this, and get it straight:

"I have been pushed as far as I will go. When I filed this complaint I put my honor and reputation behind it. I told you in that hotel room that I consider that I represent 76% of the stock and not just your clients. I told you that I would not stand for any deal with Hughes or with the defendants which was not fair to the stockholders. Incidentally, I didn't learn until [385] very recently

that your action in Nevada was not in the federal court but in the state court. Why?

"The more I think of it, the more I see no way out than to take the entire matter up with Judge Harrison and obtain his instructions.

"Very truly yours,

"*/s/ BERNARD REICH.*

"cc. Bernard D. Fischman, Esq."

17. On April 22, 1953, Mr. Kipnis wrote me as follows:

"Bernard Reich, Esq.,
"9441 Wilshire Boulevard,
"Beverly Hills, California.

"Dear Bernie:

"Your special delivery letter of the 20th arrived today.

"We are amazed to learn that despite asking for our 'orders' you do not see fit to follow the instructions of those who hired you.

"The statements contained in your letter are largely not statements of fact and are not in accord with the record. Further, your allusions to matters extraneous to the issue before Judge Harrison are groundless and I do not propose to argue them with you again. Moreover, they are beside the issue as to whether to contest the Hughes' motion to quash the attempted service upon him.

"I am sending a copy of this letter to Judge

Harrison and all adversary counsel since you seem to be considering it.

"The chronology of litigation, in our pursuit of the defendants is that the New York case was filed first; the California case, second, and the Nevada case third. In [386] Nevada (whose Rules of Procedure have been patterned on the Federal Rules) we have irrevocable jurisdiction over all necessary and proper parties. In Nevada, we are confident we will have a full, proper, thorough and just trial of the action.

"In point of fact we are now examining hundreds of documents in preparation for depositions to commence tomorrow and to continue from day to day. Scheduled for examination are the corporation, its President, Vice-President and General Counsel and three directors and former directors living here in the East.

"We are convinced that the attempted service on Hughes is not good and that his motion to quash is well taken. We previously told you about our information relative to his non-residence.

"In view of the foregoing, even if it were possible to obtain service upon Hughes, we would not wish to accomplish it because it is not possible to obtain jurisdiction over all other proper and necessary parties, as we have in Nevada.

"It is, therefore, our recommendation that you devote no further time or expense to attempt to establish the contrary to what we now know to be

the fact, namely, Hughes' residence in Nevada.

"We consider that your duty as local counsel to us is to comply with our request with respect to the motion coming on to be heard on April 27, 1953.

"Sincerely,

"*/s/ LOU.*

"LK:ms.

"Copies to:

"Hon. Ben Harrison, United States District Court, Los Angeles California. [387]

"Tom A. Slack, Esq., Mitchell, Silberberg & Knupp, Esqs., 6399 Wilshire Boulevard, Los Angeles 48, California."

18. Prior to the return date of Mr. Hughes' motion to quash on April 27, 1953, however, I met with one of the attorneys for Mr. Hughes who agreed that the motion should go over to June 8th. This was approved by Judge Harrison on April 27th, although the Court referred to Mr. Kipnis' letter instructing me to default. My duty to my clients prevented me from laying the entire matter before the Court. I merely stated to Judge Harrison that there was a difference between New York counsel and myself and that I hoped to have it resolved before June 8th.

19. In the meantime, at the instance of Messrs. Kipnis and Mittelman, on May 22, 1953, I entered into a stipulation with Mr. Guy Knupp of Mitchell, Silberberg & Knupp, and Mr. Roy W. McDonald of Donovan, Leisure, Newton & Irvine, attorneys for

defendant RKO Radio Pictures, Inc., which continued the motion for security to August 10, 1953, and continued Mr. Hughes' deposition to July 27, 1953. It was also arranged that the plaintiffs would default on the motion to quash service of process on Mr. Hughes.

20. Pursuant to the understanding I did not appear on the return date of the motion to quash the service of process on Mr. Hughes.

21. On or about July 13, 1953, I conferred with Mr. Kipnis in my office and had dinner with him and my wife at the Miramar Hotel in Santa Monica. Our entire discussion was based on the fact that the California action would proceed as [388] a standby action.

22. This conversation took place with Mr. Kipnis notwithstanding on June 26, 1953, with the consent of Mr. Kipnis but not with my consent or knowledge this action was dismissed. I had known nothing about the matter since the default on June 8, 1953; but on July 14, 1953, the day after speaking to Mr. Kipnis, I received a telephone call from an attorney in the office of Mitchell, Silberberg & Knupp who asked me if the order of June 26th had not dismissed the action against all of the defendants. He thereupon read me the order about which I learned for the first time.

23. By motion dated August 11, 1953, plaintiffs, by your deponent as their attorney, moved to vacate the Order of Dismissal made and entered June 26, 1953, on the grounds (1) that the order of June 26,

1953, purported to afford relief beyond that which was applied for by, and was different in kind from the demand in, the motion or motions; (2) that the said order purported to be wider in scope and afforded relief beyond that which was directed by minute order; (3) that the defendants failed to comply with the said minute order in that plaintiffs' attorneys were not served with any proposed order; (4) that the defendants did not comply with Local Rule 7(a), and (5) that justice requires the vacation of the said order.

24. Said motion was based on the records and files of the Court, the Notice of Hearing dated August 11, 1953, for the 5th day of October, 1953; Plaintiffs' Memorandum of Points and Authorities dated August 11, 1953, all duly served and filed, and my Affidavit which was to be filed. Thereafter I filed my affidavit which was sworn to September 9, 1953, and it was duly served. [389]

25. Thereafter Raymond A. Cook, an attorney at law in the State of Texas, and theretofore permitted by this Court to appear in this action on behalf of the defendant Hughes, filed a motion to appear as amicus curiae, and in support thereof filed an affidavit sworn to September 18, 1953. Thereafter I filed a reply affidavit sworn to October 2, 1953, which was duly served.

26. Thereafter Henry Herzbrun and Robert Silver filed a document entitled "Affidavit of Louis Kipnis and Leo B. Mittelman in Opposition to Motion to Vacate Order of Dismissal Made June

26, 1953," which affidavit was sworn to September 25, 1953, and in which said Henry Herzbrun and Robert Silver designated themselves as "Attorneys in Opposition of Motion to Vacate Order of Dismissal Made June 26, 1953." I filed and served a reply affidavit sworn to October 1, 1953.

27. Thereafter Roy W. McDonald filed his affidavit sworn to September 25, 1953, to which I replied by an affidavit sworn to October 2, 1953.

28. On October 5, 1953, the return date of my motion, I appeared for the plaintiffs; Mitchell, Silberberg & Knupp, and Donovan, Leisure, Newton & Irvine appeared for the defendant RKO Radio Pictures Corp.; Raymond A. Cook appeared as proposed amicus curiae; and Henry Herzbrun's appearance was noted, although he did not appear.

29. None of the defendants filed any memorandum of points and authorities or any memorandum pursuant to Local Rule 3(d) giving reasons why the motion of the plaintiffs should not be granted.

30. Mr. Cook's motion to appear as amicus curiae was denied so that no one appeared for the defendant Hughes. [390]

31. The Court in ruling that the order of dismissal should be vacated stated that it would not set aside the quashing of the service of Mr. Hughes, although my motion was to set aside the entire order and to which there was no opposition from the defendant Hughes.

32. I was induced to permit Mr. Hughes' motion

on June 8, 1953, to be granted by default by extrinsic fraud, part of a plot and conspiracy to deprive this Court of jurisdiction of the action and to confer unlawfully and by fraud jurisdiction on the Nevada court.

33. The default on June 8, 1953, came about as follows:

On May 5, 1953, I wrote Messrs. Kipnis and Mittelman as follows:

“Louis Kipnis and Leo B. Mittelman, Esqs.,
“111 Broadway,
“New York 6, New York.

“Re: Castleman v. Hughes,
D.C. Cal. No. 14848-BH.

“Dear Lou and Leo:

“I assume that you have seen this month’s Fortune magazine on Howard Hughes.

“When Leo telephoned me April 26th to advise me that Slack had consented to continuing his motion to June 8th so that Leo could talk to me on the subject again, I expected that I would hear from you before this as to what is to be done on June 8th.

“I know that you do not wish me to oppose Slack’s motion to vacate the service on Hughes. I still do not know what your wishes are concerning the motion for security.

“As I told Slack’s partner, Cook, I do not want to be devoured piecemeal. I told him that if he would not press [391] for security I would give consideration to consenting to the motion re Hughes.

Neither he nor you have given me any answer at all on this question of security.

"I therefore intend, if I am still in the case, to oppose the motion for security on June 8th. To do this successfully I must have the deposition of Howard Hughes. I intend therefore to notice the deposition of Howard Hughes for some reasonable time prior to June 8th.

"Naturally in this deposition I will inquire into his residence.

"I would not want to delay serving notice of Hughes' deposition beyond Monday, May 11th.

"I would appreciate very much having your views and instructions by the last-mentioned date.

"I think also that we should get our own house in order and I would appreciate very much your answering my letter of April 27, 1953.

"Sincerely yours,

"*s/ BERNARD REICH.*"

On May 7, 1953, Mr. Mittelman wrote me as follows:

"Bernard Reich, Esq.,
"9441 Wilshire Boulevard,
"Beverly Hills, California.

"Dear Bernie:

"This will be in answer to your letter of May 5, 1953, and certain previous communications. Indeed, after discussing the entire matter with our mutual friend, I prepared this letter limiting it to the pur-

pose of acceding to your desire, frequently expressed, to be substituted out of the case. However, I delayed a few days because I thought it advisable to [392] review the situation to satisfy you and, indeed, myself as well, that this outcome was inevitable. It is regrettable that we have not been able to hit it off, but frankly I cannot see that we at this end are to blame for the pass to which we have come.

"Our interest as attorneys in the RKO situation goes back to a period late in 1949 when we were first consulted by a client who was dissatisfied at the way in which Hughes was acting relative to RKO. As a matter of fact, on behalf of the client we were in communication with Lloyd Wright and Dietrich on the warrant matter and we had drafted a complaint in 1950 which was not served because our client decided not to press the matter. We did nothing affirmative again until we were consulted by clients in 1952, who were sufficiently outraged to order us to sue. After the suit was commenced, we heard from certain other members of the bar that they too had been thinking of suing Hughes. In any event, we started suit in New York on the day after the sale of the Hughes' stock in September. Unfortunately, however, we could not serve Hughes in this jurisdiction.

"We next resorted, in all good faith, to the receivership application. And yet, with all the publicity attendant upon this, no other suits were started anywhere by anyone before April of 1953.

"For your information, no RKO shareholder came forward in support of the receivership application. As a matter of fact, the only person who did show up was I. J. Kresel, Esq., one of the most eminent New York lawyers who on behalf of the largest single shareholder of RKO, opposed the receivership. In the face of this opposition and the applications for adjournment supported by Disney and Goldwyn counsel, Lou's was a lone voice crying in the wilderness. [393]

"In this posture Lou wrote to Charles Allen, Louis B. Mayer and Floyd Odlum with a view to get them to step in and lend a measure of confidence to the Company. Allen, an aggressive Wall Street underwriter, sent back word that he would not touch RKO with a ten-foot pole. Mayer did not even respond. Odlum, disclaiming any interest in getting back in the company, was nevertheless sufficiently interested through the Atlas holdings in RKO to listen to Lou in his efforts at avoiding more unfavorable publicity and damage to the Corporation during the pendency of the suit.

"All of this took place before we wrote you in December to ask you to act as our local counsel for a 'standby' action. Thereafter and around Christmas time you wrote 'Don't worry about me, this is your show.' We assumed that you meant it and that you meant it when you said further 'I did not call you because I did not trust your good faith * * *.' Yet from that day forward, we have had a continuing flow of letters which not only impliedly

impugned our good faith but which are expressly accusatory. Finally on April 20 you suggested that we 'substitute (you) out of the case,' and on April 27 you wrote that you would 'like everything settled between us within the next ten days.'

"Your attitude, it seems, stems from an idea which you have and which we have been unsuccessful in changing that there is something indeed 'suspect' about the action commenced by us in Nevada because of the willingness of the defendants to appear there and not to appear either in New York or California.

"And yet there should be and there is no mystery about this. Our pursuit of Hughes was relentless. Lou's letters, looking for an RKO savior, brought a meeting with Odlum. At Odlum's invitation Lou met with Tom Slack, Hughes' attorney, at [394] Mr. Odlum's ranch in Indio, California. Odlum did not doubt for one moment, nor indeed did Mr. Slack that there had to be an ultimate determination of the issues raised by our action. Odlum's position as peacemaker was that he would like to see as speedy a determination of the issues as possible.

"Slack took the view throughout that Hughes would not submit to jurisdiction in California come what may, but that he, Hughes, would not avoid service in Nevada, his intended and actual residence, and would appear there.

"It must be clearly understood that other than this agreement for Hughes' appearance in Nevada,

no other agreement of any kind was made. That is not to say that the parties did not see the possibility of a settlement of litigation since all lawyers, if they are sensible, appreciate that at some point in a litigation such a result is possible and advisable. It is my understanding that Mr. Slack, following his conversation with Lou and Mr. Odlum, and after Lou had gone to Las Vegas to study the situation there and to commence action (if satisfied that that would be beneficial) got in touch with counsel for RKO and explained to them the entire situation, in consequence of which the corporation also, in the interests of a speedy determination of the issues, appeared in the Nevada action.

"So much for the background of Lou's arrangements with respect to appearances and expedition.

"You intimate that Lou had no business meeting with Mr. Odlum and Mr. Slack without 'apprising (you) of the facts' and yet you admit that I advised you several months ago on the telephone of the fact of Lou's presence at Odlum's ranch.

"You ask for specificity relative to Lou's statement of lack of accuracy in your various recitals of 'fact.' The previous [395] paragraph is a good jumping-off point; here are some others.

"(1) Neither Lou nor I ever met Hughes anywhere, any place, any time.

"(a) No action was ever started by us in Texas or any other place except as above.

"(3) We never told you we had a deal, any-

wheres, any time, any place and never said anything in the New York hotel room which adds up to your '#5' of your letter of April 20. We went no further than to say that we hoped that after a full and complete examination, we might reach a settlement—the ambition of any lawyer.

"(4) As to '#8' of this same letter, Sec. 1695 of Title 28, U.S.C., was always available to us, anywhere, any time and any place.

"We have never done or said anything to merit your violent expressions against us and because of their utter groundlessness, as this and our prior letters have established, we must accede to your request that you be relieved as local counsel in California.

"If the form, which you sent us when you wanted to be substituted as co-counsel with Lou in place of Lou alone, in the New York case, is satisfactory, we will prepare it and insert the name of substituted counsel and forward it to you for use in California.

"In view of the foregoing, we want you to do nothing further in this case and we want you to consider yourself relieved of any position in this case. Whatever authority we have heretofore granted to you is hereby revoked and cancelled.

"Sincerely yours,

"*/s/ LEO.*

"LBM:ms. [396]

"P.S. Since you have not given us any facts in your exclusive possession, we feel that no possible

prejudice can accrue to you on that score.

“LBM.”

On May 11, 1953, I wrote Mr. Mittelman as follows:

“Leo B. Mittelman, Esq.,
“111 Broadway,
“New York 6, New York.

“Re: Castleman v. Hughes,
No. 14848-BH.

“Dear Leo:

“I have your letter of May 7, 1953.

“In my letter of May 5th, to which you allege yours is a response, I wrote:

“‘As I told Slack’s partner, Cook, I do not want to be devoured piecemeal. I told him that if he would not press for security I would give consideration to consenting to the motion re Hughes. Neither he nor you have given me any answer at all on this question of security.

“‘I therefore intend, if I am still in the case, to oppose the motion for security on June 8th. To do this successfully I must have the deposition of Howard Hughes for some reasonable time prior to June 8th.’

“In my letter of April 27th I wrote:

“‘My question to you still is what is to happen to both motions on June 8th? Also, whether I am free to oppose the motion for security on June 8th with all the proper means available to me?’ [397]

"How your letter of May 7th constitutes an answer to my letters is beyond me.

"Is it that you do not wish to oppose either motion?

"I gather from your letters, every one of them, that you do not recall everything you said to me in December when Lou was in California, or what was said to me in my New York hotel room in the presence of Bernie.

"In any event whether it be before Judge Greenberg, Chief Judge Yankwich or Judge Harrison, in New York, in California or in Nevada, in this action or any other action or proceeding, I intend to fulfill my sworn duty to the courts and to the RKO stock-holders.

"To go back to just one thing: Soon after the Cochran Ranch conference, Lou was intimating that the receivership would not be pressed. Then, on January 26, 1953, Lou apparently told Judge Greenberg that since the RKO board had been reconstituted (that is, resumption of Hughes' control), Lou was withdrawing the receivership application.

"Like the matter of the Cochran Ranch, you did not tell me of the withdrawal of the application until after it was done.

"I told you then that this was wrong and made no sense.

"Now Fortune (page 123) states:

"The ironic aspect of this whole affair is that

the syndicate by its very eagerness to make a fast buck, might have been a distinct improvement over the sort of management RKO has had in the past five years.'

"As to substitution, you say nothing in your letter of my fees or the costs which I have expended. The form of substitution which I sent you in more peaceful days, and which involved a different situation entirely is of course not applicable [398] here.

"Please therefore advise the terms of substitution which you wish me to consider.

"In the meantime, and so that there will be no prejudice to the clients, I am noticing Hughes' deposition which will be absolutely necessary if you wish to oppose the motion for security on June 8th.

"I am noticing the deposition for May 28, 1953. This will give you sufficient time to effectuate a substitution and withdraw the notice if you still wish to do so. In this way the clients will be protected, in case they want to oppose the motions on June 8th, and will not be prejudiced by me if you do not want to oppose them.

"Incidentally I assume by your postscript that you acknowledged my right to file for other stockholders—although you misunderstood my reference to other facts.

"Sincerely yours,

"*/s/ BERNARD REICH.*"

On May 13, 1953, Mr. Kipnis wrote me as follows:

“Bernard Reich, Esq.,
“9441 Wilshire Boulevard,
“Beverly Hills, California.

“Dear Bernie:

“Leo has been in Montreal since yesterday and won’t be here before Friday.

“In his May 7th letter, he stated that we ‘want you to do nothing further in this case and we want you to consider yourself relieved of any position in this case. Whatever authority we have heretofore granted to you is hereby revoked and [399] cancelled.’

“This seemed to be a clear answer to your inquiries as to what you are to do, that is, to do nothing to oppose either motion. We told you so most explicitly by letter of April 16, 1953. The letter also told you that a substitution was forthcoming—which it is.

“I don’t want to be in the position of answering a letter addressed to Leo, so please consider this merely as a stop-gap reply conveying the news of a substitution having been dispatched out.

“Sincerely yours,

“/s/ LOU.

“LK:ms.”

On May 15, 1953, I wrote Mr. Kipnis as follows:

“Louis Kipnis, Esq.,
“111 Broadway,
“New York 6, N. Y.

“Re: Castleman v. Hughes.

“Dear Lou:

“I have your letter of May 13, 1953.

“You say in substance that by letter of April 16, 1953, you told me to do nothing to oppose either motion.

“I have reread that letter very carefully and find only that Leo told me to offer ‘no resistance whatever to the motion being made by Hughes’ counsel to quash service.’

“All of my previous correspondence referred to both motions.

“After receipt of your letter of April 16th, and on April 20, 1953, I wrote Leo in part as follows (page 3):

“‘You say that you do not wish me to offer any resistance to Hughes’ motion. However, how about the [400] motion for security? Have you forgotten that you once told me that the motion for security if made, would be in bad faith? I want to know now and at the same time what your instructions are regarding both motions.’

“Your letter of April 22, 1953, again only referred to the motion to quash.

“On April 27, 1953, I wrote you as follows:

“‘My question to you still is what is to happen to both motions on June 8th? Also, whether I am

free to oppose the motion for security on June 8th with all the proper means available to me?"

"On May 5, 1953, I wrote to both of you in part as follows:

"I therefore intend, if I am still in the case, to oppose the motion for security on June 8th."

"There is nothing in Leo's letter of May 7th which says directly that the motion for security should not be opposed. True, you attempt to fire me and instruct me to do nothing in the case. Does that mean that the motion for security will not be opposed on June 8th? Who are you kidding? You're trying to fire me so that the motion for security on June 8th will not be opposed.

"I don't know why you are so squeamish about answering a letter addressed to Leo. You and Leo have been interchanging answers right along. I take it, however, that on the question of the terms of substitution, that is with respect to my fee and costs, you are leaving that to Leo just because my letter of May 11th was addressed solely to Leo.

"One good piece of advice without charge: [401]

"If the motion for security returnable on June 8, 1953, is not opposed, and there is no question in my mind that not only should it be opposed but that it can be successfully opposed, you and Leo leave yourselves open to a charge of malpractice to say the very least.

"Sincerely yours,

"BERNARD REICH."

On May 18, 1953, Mr. Mittelman wrote me as follows:

“Bernard Reich, Esq.,
“9441 Wilshire Boulevard,
“Beverly Hills, California.

“Dear Bernie:

“In answer to your letter of May 15, 1953.

“Re: Terms of Substitution.

“Our agreement was that in consideration of your acting as our local counsel in the California action, you would receive not less than 10% of all the fees we might be awarded in our several actions. In the event of services performed by you in excess of those anticipated, it was agreed that Bernie Fischman would determine whether and to what extent you were to receive any additional sum.

“In our letter of April 16, 1953, we stated ‘Our obligation will survive the California action.’ By that we meant that regardless of the disposition of the California action, we intended to and would honor our agreement with you. In short, please accept this letter as meaning that by stepping out of the action your rights with respect to our arrangements regarding fees and costs will not be prejudiced.

“Re: Motion for Security.

“It was not our intention to let the ‘security’ motion [402] go by default. When we wrote asking you to do nothing, it meant just that—we did not

want you to do anything affirmative but that we would.

"As Step One, we are stipulating to a simultaneous adjournment of the security motion plus the notice of taking of deposition of Hughes, all subject to Court approval and without prejudice.

"Therefore, if the stipulation adjourning the 'security' motion and the deposition come in before you are formally substituted, won't you please sign it. If it comes in after you are substituted, then, of course, we will have Herzbrun sign it, and we have so written him.

"Sincerely yours,

"LEO.

"LBM:ms."

On May 19, 1953, I wrote Mr. Mittelman as follows:

"Leo B. Mittelman, Esq.,
"111 Broadway,
"New York 6, New York.

"Re: Castleman v. Hughes,
D.C. Cal. 14848-BH.

"Dear Leo:

"I have your letter of May 18th and I have talked to Henry Herzbrun again today.

"Regarding the terms of substitution, I accept your understanding with respect to the 10%, and I waive any further fees so that Bernie Fischman need not make any determination.

"On the other hand, I wish to have my costs paid

now. Not including the unposted disbursements which may go back [403] a month or two (because of my setup here) they amount to \$143.69.

"I consider myself to be wrongfully discharged and entitled to insist on a fixed fee and payment of my costs at this time. However, because of Bernie Fischman I would waive that right providing my costs are paid.

"I would also like a commitment from you that you will press in Nevada the charges I made here in California. Incidentally, should you want my evidence and my help in this connection I gladly offer it to you, in which case we can leave it to Bernie to decide any additional compensation.

"I suggest further that you prepare a letter agreement which I can file with the defendants in New York, Nevada and California.

"Regarding the motion for security, I will of course sign the stipulation adjourning the security motion and the deposition if the substitution does not come in in the meantime. This is precisely what I have been pleading for these many weeks. Had you clarified this matter along these same lines some time ago there would have been no need of the substitution.

"Just what was it that changed the minds of the defendants?

"In any event I wish you good luck and success in Nevada.

"Sincerely yours,

"*/s/ BERNARD REICH.*"

34. The stipulation referred to in the last two letters reproduced above came in on May 22, 1953. I signed it. As already indicated it provided that the defendant RKO's motion for security be continued to August 10, 1953, and that Mr. Hughes would give his deposition in my office, subject [404] to applications, on July 27, 1953.

35. I had no reply from Mr. Mittelman to my letter of May 19, 1953, when I wrote him on June 26, 1953, as follows:

“Leo B. Mittelman and Louis Kipnis, Esqs.,
“111 Broadway,
“New York 6, New York.

“Re: Castleman v. Hughes,
D.C. Cal. 14848-BH.

“Gentlemen:

“I still do not have a reply to my letter of May 19, 1953.

“Today I learned for the first time that at the instance of Mr. Herzbrun subpoenas were issued calling for the depositions of Dore Schary, N. Peter Rathvon, Jerry Wald, Norman Krasna, Sid Rogell, Sam Bischoff, Jack Skirball and Frank Ross in connection with the Nevada action.

“I consider these steps as in breach of our relationship and moreover not in the best interests of the clients.

“I could have approached these men and would have made them friendly witnesses instead of the hostile witnesses they now will be.

"I think you will find that before you actually take these depositions you will go through all the work and trouble which you wish to avoid in connection with Hughes, and about which you lectured me.

"Not having heard from you in response to my letter of May 19, and in view of the present circumstances, I withdraw my waiver of any further fees mentioned in my said letter.

"Please prepare and forward to me an agreement of substitution.

"If I do not hear from you within the week, I shall feel free to act in any way necessary to protect my interests. [405]

"Very truly yours,

"*s/ BERNARD REICH.*

"cc: Bernard D. Fischman, Esq.,
Henry Herzbrun, Esq.

"P.S. My total disbursements up to date are \$262.05.

"BR."

On the very day I wrote the letter this Court, at the instance of plaintiffs' New York counsel and the defendants' counsel, and without my knowledge or consent, signed the order of dismissal presented to it by the said attorneys.

On December 14, 1953, Judge Harrison stated of this order:

"The Court: I am referring to the order which was dismissed, I think, incorrectly and which was unfairly presented to the Court." [Page 34, lines 2-4.]

36. It is clear that plaintiffs' New York lawyers and defendants' were overanxious in depriving this Court of its jurisdiction. As the exchange of letters indicate I was willing to let Mr. Hughes' motion to quash go by default on condition that the motion for security be opposed and that the California action which was filed prior to the Nevada action would at least remain as a standby action. I was assured of this by the direct representations of plaintiffs' New York counsel and by the stipulation entered into by defendants' counsel in connection with the motion for security and the deposition of Mr. Hughes.

37. I would not have defaulted on June 8th on Mr. Hughes' motion to quash service on him had I not relied on the aforesaid representations and stipulation. Moreover I am convinced that [406] Mr. Hughes is a resident of California. I have been informed by an investigator that Mr. Hughes still maintains a residence in Beverly Hills and in recent months has spent a great deal of his time here.

38. In their Amended and Supplemental Complaint filed in Las Vegas, Nevada, on December 22, 1953, plaintiffs allege, Paragraph II, subdivision (e) "Defendant Howard R. Hughes is the principal stockholder of Hughes Tool and purports to be

domiciled in Texas but resides in Texas, Nevada or California."

39. In his answer filed in Las Vegas, Nevada, on December 31, 1953, Mr. Hughes states: "Answering the allegations contained in Paragraph II (e), this defendant admits the same."

40. I respectfully incorporate by reference all my affidavits heretofore made and on file, including:

(a) Affidavit of Bernard Reich in Support of Motion to Vacate Order of Dismissal, sworn to September 9, 1953.

(b) Reply Affidavit of Bernard Reich in Opposition to Motion and Affidavit of Raymond A. Cook as Amicus Curiae, sworn to October 2, 1953.

(c) Reply Affidavit of Bernard Reich to Affidavit of Louis Kipnis and Leo B. Mittelman, sworn to October 1, 1953.

(d) Reply Affidavit of Bernard Reich to Affidavit of Roy W. McDonald, sworn to October 2, 1953.

(e) Affidavit of Bernard Reich in Support of Motion for the Appointment of a Special Master, sworn to November 13, 1953.

(f) Affidavit of Bernard Reich in Reply to Affidavit of Louis Kipnis, sworn to November 27, [407] 1953.

41. I charge the defendants and plaintiffs' New York counsel with collusion in submitting the action to the Nevada court.

42. I charge the defendant Howard R. Hughes with purporting to remove himself from this jurisdiction and to Las Vegas, Nevada, after the commencement of this action and before the commencement of the Nevada action as part and parcel of a plan to deprive this Court of jurisdiction and to confer jurisdiction to the State of Nevada.

43. I charge plaintiffs' New York counsel with failing to truly represent the stockholders of RKO in this action and charge further that the proceedings in Nevada are not truly adversary.

44. I charge plaintiffs' New York counsel with the responsibility of plaintiffs' default on Mr. Hughes' motion to quash service on him, and I charge further that this default was part and parcel of the plan and determination between plaintiffs' New York counsel on the one hand and defendants to deprive this Court of jurisdiction and to confer jurisdiction on the Nevada court.

45. I charge defendants, plaintiffs' New York counsel, and others with a plan, scheme and determination to abandon the California action, to have it dismissed without my knowledge and consent, and as part of the over-all plan to deprive this Court of jurisdiction.

46. I charge the defendants and plaintiffs' New York counsel with complete disinterest and indifference to the rights and interests of the thousands of stockholders of RKO [408]

Wherefore I respectfully pray this Court to grant the motion herein in all respects.

/s/ BERNARD REICH.

Subscribed and sworn to before me this 1st day of February, 1954.

[Seal] /s/ HELEN SPARKMAN,
Notary Public in and for the County of Los Angeles, State of California.

Affidavit of Service by Mail attached.

[Endorsed]: Filed February 4, 1954. [409]

[Title of District Court and Cause.]

NOTICE OF INTENTION TO APPLY FOR
DEPOSITION OF HOWARD R. HUGHES

To the Defendants and to Their Attorneys:

Please Take Notice that on February 15, 1954, at 10 a.m., or as soon thereafter as counsel can be heard, in the courtroom of District Judge Ben Harrison, Federal Building, Los Angeles, California, the undersigned will apply to the Court for leave to take the deposition of Howard R. Hughes as an officer, director and/or employee of the defendant RKO Radio Pictures, Inc., in aid of the motions duly noticed for the same day pursuant to Rules 53 and 60 of the Federal Rules of Civil Procedure.

This notice is given notwithstanding and without prejudice to the taking of the deposition without

application therefor, as [411] a courtesy to the Court and to counsel.

Dated: February 3, 1954.

/s/ BERNARD REICH,
Attorney for Plaintiffs.

Affidavit of service by mail attached.

[Endorsed]: Filed February 4, 1954. [412]

[Title of District Court and Cause.]

MINUTES OF THE COURT—FEB. 15, 1954

Present: Hon. Ben Harrison,
District Judge.

Counsel for Plaintiffs: Bernard Reich;
Robert Silver.

Counsel for Defendants: Raymond A.
Cook for def't Howard R. Hughes;
Guy Knupp for def't RKO Radio Pict.,
Inc.

Proceedings:

For hearing (1) motion of plaintiffs to vacate in part order docketed and entered Jan. 12, 1954, and for other relief; and (2) application of plaintiffs for leave to take the deposition of Howard R. Hughes, pursuant to motion, notice, memo. of points and authorities, and affidavit of Bernard Reich, and notice of intention to apply for deposition of Howard R. Hughes, filed Feb. 4, 1954.

Attorney Reich makes a statement to the Court.

The Court makes a statement to Attorney Reich that the Court will give Attorney Reich time to show that he has authority to appear for plaintiffs.

Attorney Reich makes a further statement.

The Court makes a further statement.

Attorney Cook makes a statement to the Court.

The Court Orders said motion (1) and application (2) continued to March 29, 1954, 10 a.m., for hearing.

Attorney Reich makes a statement to the Court of objection to Robert Silver appearing for plaintiffs.

EDMUND L. SMITH,
Clerk.

By MURRAY E. WIRE,
Deputy Clerk. [431]

[Title of District Court and Cause.]

RENOTICE OF MOTION FOR APPOINTMENT OF SPECIAL MASTER

To the Defendants and to Their Attorneys:

Please Take Notice that on March 29, 1954, at 10 a.m., in the courtroom of the Hon. Ben Harrison, Federal Building, Los Angeles, California, the undersigned will renew motion dated November 12, 1953, "For Appointment of Special Master Pursu-

ant to Rule 53 of the Federal Rules of Civil Procedure," which motion went off calendar by order of the Court on December 14, 1953, subject to being renewed.

Dated: March 8, 1954.

/s/ BERNARD REICH,
Attorney for Plaintiffs.

Affidavit of service by mail attached.

[Endorsed]: Filed March 11, 1954. [432]

[Title of District Court and Cause.]

MOTION TO ADD AND JOIN PARTIES
PLAINTIFF OR FOR LEAVE TO INTER-
VENE

Comes Now the plaintiffs and the proposed interveners, Julius November and Eleanor November and hereby petition and move the Court as follows:

1. To add and join as party plaintiffs Julius November and Eleanor November.
2. To allow the said Julius November and Eleanor November to intervene and become parties plaintiffs herein.

Said motion will be made on the following grounds:

1. Julius November and Eleanor November are each shareholders of record of RKO Pictures Corporation, one of the defendants herein.

2. Said Julius November and Eleanor November have a joint interest with the plaintiffs, and in any event have an interest [436] in respect of or arising out of the same transactions, occurrences, or series of transactions or occurrences, alleged in the amended complaint herein.

3. Said Julius November and Eleanor November are members of the class of shareholders purportedly represented by plaintiffs in this action; and the representation of their interest herein is inadequate and they are or may be bound by a judgment in this action.

4. The claims of said Julius November and Eleanor November and this action have questions of law and fact in common.

5. The addition, joinder or intervention of the said Julius November and Eleanor November will not delay, unduly or otherwise, or prejudice the adjudication of the rights of the parties hereto and is required in the interests of justice and to assure true adversary proceedings.

Dated: March 5, 1954.

/s/ BERNARD REICH,

Attorney for Plaintiffs and
Proposed Interveners.

[Endorsed]: Filed March 11, 1954. [437]

[Title of District Court and Cause.]

PETITION

The proposed interveners, or proposed additional parties plaintiff herein, for their petition allege:

1. Petitioners are residents of and have their domicile in the State of New York.
2. Petitioners are shareholders of record of RKO Pictures Corporation, defendant herein, and have been such continuously since January 8, 1951, and previously of the predecessor of RKO Pictures Corporation, to wit, Radio-Keith-Orpheum Corporation, since on or before January 1, 1948, and at the times of some of the transactions and acts complained of in this action.
3. Petitioners had been record holders of 700 shares of the predecessor corporation until on or about January 8, 1951 when, pursuant to consent decree the shares of stock in the successor [438] corporation were exchanged. Julius November is the record holder of 200 shares of stock in the defendant RKO Pictures Corporation and Eleanor November is the record holder of 150 shares of stock of the said defendant.
4. In 1953 petitioners sought to retain Bernard Reich to represent them in this action. Mr. Reich referred them to another attorney who as yet has been unsuccessful in obtaining the Nevada Court's leave to intervene in that action pending in the Eighth Judicial District Court of the State of Ne-

vada, in and for the County of Clark, entitled Castleman vs. Walker, et al., and bearing Case No. 59,422.

5. Petitioners have now retained Mr. Reich, who has accepted the retainer to represent petitioners in this action.

6. Petitioners incorporate by reference the affidavits of Bernard Reich heretofore made and on file in this action, including:

(a) Affidavit of Bernard Reich in Support of Motion to Vacate Order of Dismissal, sworn to September 9, 1953.

(b) Reply Affidavit of Bernard Reich in Opposition to Motion and Affidavit of Raymond A. Cook as Amicus Curiae, sworn to October 2, 1953.

(c) Reply Affidavit of Bernard Reich to Affidavit of Louis Kipnis and Leo B. Mittelman, sworn to October 1, 1953.

(d) Reply Affidavit of Bernard Reich to Affidavit of Roy W. McDonald, sworn to October 2, 1953.

(e) Affidavit of Bernard Reich in Support of Motion for the Appointment of a Special Master, sworn to November 13, 1953.

(f) Affidavit of Bernard Reich in Reply to [439] Affidavit of Louis Kipnis, sworn to November 27, 1953.

(g) Affidavit of Bernard Reich in Support of Motion to Vacate Part of Order of January 12, 1954, and for Other Relief, sworn to February 1, 1954.

7. These affidavits demonstrate that the interests of all the stockholders are not adequately represented herein because of the acts and conduct of plaintiffs' New York attorneys.

8. Petitioners have been informed and therefore allege on information and belief that the amended complaint was prepared by Mr. Reich and petitioners hereby elect to adopt the said pleading as their own.

9. Intervention will not delay or prejudice the adjudication of the rights of the parties hereto and is required in the interests of justice and to assure adequate representation for and in the best interests of all the stockholders.

10. Petitioners have no interest in conflict with the RKO corporations or have any interest other than what is consistent with the welfare of the stockholders.

11. This application is timely made for the reason that petitioners did not know of any claimed inadequate representation until either late in September or early in October, 1953, when the difficulty in this Court was printed in the press.

Moreover it was not until December 22, 1953, that the order denying petitioners' motion in the Nevada action was made.

Wherefore petitioners pray for an order granting the intervention.

Dated: March 5, 1954.

/s/ BERNARD REICH,
Attorney for Petitioners.

Duly verified.

[Endorsed]: Filed March 11, 1954. [440]

[Title of District Court and Cause.]

AFFIDAVIT OF BERNARD REICH IN SUPPORT OF MOTION TO ADD AND JOIN PARTIES PLAINTIFF

State of California,
County of Los Angeles—ss.

Bernard Reich being first duly sworn, deposes and says:

1. I am the attorney for the plaintiffs and make this affidavit in support of the motion to add Julius and Eleanor November as parties plaintiffs herein.

2. Said proposed parties have a joint interest with the plaintiffs, and in any event have an interest in respect of or arising out of the same transactions, occurrences, or series of transactions or occurrences, alleged in the amended complaint herein.

3. Said proposed parties are members of the class of shareholders in part represented by the plaintiffs in this action. [442]

4. The claims of the said proposed parties and

this action have questions of law and fact in common.

5. The addition of the said proposed parties will not delay or prejudice the adjudication of the rights of any of the parties hereto and is required in the interests of justice.

/s/ BERNARD REICH.

Subscribed and sworn to before me this 10th day of March, 1954.

[Seal] /s/ HELEN SPARKMAN,
Notary Public in and for the County of Los Angeles, State of California.

[Endorsed]: Filed March 11, 1954. [443]

[Title of District Court and Cause.]

MINUTES OF THE COURT—MARCH 29, 1954

Present: Hon. Ben Harrison,
District Judge.

Counsel for Plaintiffs and Proposed Intervenors: Bernard Reich;

Counsel for Defendant Howard R. Hughes: Raymond A. Cook;

Counsel for Defendant: RKO Radio Pictures, Inc.: Roy W. McDonald and Geo. Benedict;

Counsel for Plaintiffs: Robert Silver and Leo B. Mittelman, Esqs.

Proceedings:

For hearing (1) motion of plaintiffs to vacate in part order docketed and entered Jan. 12, 1954, and for other relief; (2) application of plaintiffs for leave to take the deposition of Howard R. Hughes; pursuant to motion, notice, memo. of points and authorities, and affidavit of Bernard Reich, and notice of intention to apply for deposition of Howard R. Hughes, filed Feb. 4, 1953; (3) further hearing motion of Bernard Reich, Esq., Local Attorney of Record for the plaintiffs for appointment of a Special Master, pursuant to Rule 53 of FRCP, and pursuant to motion, affidavit of Bernard Reich, filed Nov. 16, 1953, and renoteice of hearing, filed March 11, 1954; and (4) motion of plaintiffs and the proposed interveners, Julius November and Eleanor November, to add and join parties plaintiff or for leave to intervene, pursuant to motion, petition, affidavit of Bernard Reich, and memo. of points and authorities, and notice, filed March 11, 1954.

At 10:40 a.m. court convenes herein. Attorney Reich makes a statement and suggests a continuance of hearing above motions until April 12, 1954.

On motion of Robert Silver, Esq., It Is Ordered that Leo B. Mittelman, Esq., of New York Bar may practice in this Court for the purposes of this case.

Attorney McDonald of the New York Bar, heretofore admitted to practice in this Court for the purposes of this case, makes a statement to the Court.

Attorney Reich makes a statement. The Court makes a statement. Attorney Reich makes a further statement.

Attorney Mittelman makes a statement to the Court. The Court makes a further statement.

At 11:23 a.m. court recesses. At 11:33 a.m. court reconvenes herein, and all being present as before, Court orders trial proceed.

Attorney Reich makes a further statement. Court makes a further statement. Attorney McDonald makes a further statement. Attorney Reich makes a further statement.

Court Orders that all of the above motions on the calendar, to wit, (1), (2), (3), and (4) are continued to April 19, 1954, 11 a.m., for hearing, and also any motion that may be filed to dismiss by defendant RKO Radio Pictures, Inc., will also be heard on that day, viz., April 19, 1954, 11 a.m.

EDMUND L. SMITH,
Clerk.

By MURRAY E. WIRE,
Deputy Clerk. [470]

[Title of District Court and Cause.]

MOTION TO DISMISS WITH PREJUDICE

Defendant RKO Radio Pictures, Inc., (herein called "Radio") respectfully moves this Court to enter its Final Judgment dismissing this action with prejudice.

The grounds of said motion are as follows:

1. On December 23, 1952, the plaintiffs in this action instituted an action, upon the same causes of action herein alleged, in the Eighth Judicial District Court of the State of Nevada (herein called "the Nevada Court"), County of Clark, at Las Vegas, naming, among others, Radio and Howard R. Hughes as defendants. This action is herein referred to as "the Castleman-Nevada action."

2. On April 1, 1954, the Nevada Court entered its Final Judgment in the Castleman-Nevada action, dismissing the same with prejudice, reserving jurisdiction solely for certain [471] ancillary proceedings related to the costs, if any, and fees, if any, allowable to plaintiffs in derivative and representative actions purportedly filed on behalf of RKO Pictures Corporation or its stockholders, wherever instituted or pending.

3. Prior to entry of such judgment, the Nevada Court directed that notice of hearing upon the motion to dismiss with prejudice the Castleman-Nevada action be given to all stockholders of RKO Pictures Corporation; such notice in the form and manner

prescribed by the Nevada Court was duly given to each record stockholder (as of February 24, 1954) of RKO Pictures Corporation; the motion to dismiss was duly heard by the Nevada Court beginning March 22, 1954; and the Nevada Court entered its Interlocutory Order and Findings of Fact and Conclusions of Law on March 30, 1954.

4. Julius and Eleanor November, applicants to intervene in this Court, were duly represented in the Nevada Court by Nevada counsel, and were accorded full opportunity to participate in such hearing.

5. The final order of dismissal with prejudice duly entered by the Nevada Court on April 1, 1954, bars any further prosecution of this action.

The motion will be based on the following:

1. The records and files of this Court.
2. The Notice of Hearing thereon.
3. The affidavit of Roy W. McDonald in support of this motion.
4. Certified copies of proceedings in the Castleman-Nevada action, including the motion to dismiss with prejudice, the notice to stockholders, the Interlocutory Order and the Findings of Fact and Conclusions of Law dated March 30, 1954, the motion for final judgment and supporting affidavit [472] dated April 1, 1954, and the Final Judgment dated April 1, 1954. Such certified copies will be offered in evidence at the hearing on this motion.

5. Radio's Memorandum of Points and Authorities.

Dated: April 5, 1954.

MITCHELL, SILBERBERG &
KNUPP,

By /s/ GEORGE BENEDICT, JR.,
Attorneys for RKO Radio
Pictures, Inc.

[Endorsed]: Filed April 7, 1954. [473]

[Title of District Court and Cause.]

AFFIDAVIT OF ROY W. McDONALD IN
SUPPORT OF MOTION TO DISMISS
WITH PREJUDICE

State of California,
County of Los Angeles—ss.

Roy W. McDonald, being duly sworn, on oath
says:

1. I am a member of the bars of the States of New York and Texas, of the Supreme Court of the United States, and of a number of the Courts of Appeal and the District Courts of the United States; am a partner in the firm of Donovan, Leisure, Newton & Irvine of New York, N. Y., who appear of counsel for the defendant RKO Radio Pictures, Inc. (herein called "Radio"); and have been duly admitted by

Order of this Court to appear as one of the counsel for Radio in this proceeding.

2. I make this affidavit in support of the motion of Radio to dismiss this action with prejudice.

3. On December 23, 1952, the identical plaintiffs herein, Eli B. Castleman, et al., instituted an action in the Eighth [474] Judicial District Court of the State of Nevada, County of Clark, at Las Vegas, Nevada, against J. Miller Walker, Francis J. O'Hara, Jr.; Howard R. Hughes (herein referred to as "Hughes"), Noah Dietrich, Ned E. Depinet, Hughes Tool Company, RKO Pictures Corporation (herein referred to as "RKO"), and Radio. This action is referred to herein as "the Castleman-Nevada action." The complaint in such action and the amended complaint subsequently filed embrace the identical causes of action set forth in this California action.

4. In the Castleman-Nevada action the several defendants duly appeared and answered. Some twenty-one witnesses were examined orally by plaintiffs, and over one hundred forty documentary exhibits were marked for identification. The case was set for trial early in January, 1954, but at the time it was reached, the New York counsel of plaintiffs were subject to a stay order issued by a New York court preventing them from proceeding with the trial of the action. Such stay was subsequently vacated by the New York court, but in the meantime the Nevada Court had reset the Castleman-Nevada case for trial in August, 1954.

5. On February 7, 1954, Hughes made an offer to purchase all the assets of RKO, "including any and all claims or causes of action of every kind or character against, or which might be asserted against, any person or persons, including" Hughes, for \$23,489,478.00 in cash. A copy of such offer is attached hereto as "Exhibit A." This offer was subject to certain conditions, all of which were subsequently satisfied. On March 18, 1954, the stockholders of RKO, at a special meeting called for the purpose, approved the sale of assets pursuant to such offer. Of the total 3,891,526 shares entitled to vote, 3,358,116 shares were voted in favor of acceptance of the offer, and 73,227 against. Excluding the shares owned by Hughes, 2,022,769 were voted in favor of acceptance of the offer, which was in excess of 50% of the outstanding stock. On March 31, 1954, at Wilmington, Delaware, the sale [475] of such assets was consummated by Hughes paying to RKO the above sum in cash and by RKO's transferring to Hughes all of its assets.

6. On February 11, 1954, Hughes filed a motion in the Castleman-Nevada action praying that such action, which was the only action in which he had been validly served or had answered, be dismissed with prejudice. A copy of such motion is attached hereto as "Exhibit B." On February 11, 1954, the Nevada Court set such motion for hearing on March 22, 1954, and directed that RKO give notice of such hearing to each of its stockholders by mailing such Notice, in the form prescribed by the order of the

Nevada Court (as amended February 16, 1954) to each such stockholder with the proxy statement relating to the special meeting of stockholders to be held March 18, 1954, for the purpose of voting upon Hughes' offer. A copy of such Notice, in the form prescribed by the Nevada Court, is attached as "Exhibit C." Such Notice was duly mailed to all stockholders of RKO together with the proxy statement, on or about March 1, 1954.

7. On March 22, 1954, the motion to dismiss came on for hearing before the Hon. Frank McNamee, Judge of the Nevada Court. The plaintiffs herein, Eli B. Castleman, et al., appeared therein by their counsel, David Zenoff, Esq., of the Nevada bar, and Louis Kipnis and Leo B. Mittelman, of the New York bar. All defendants appeared by their counsel of record. Among the stockholders present in person or by counsel were Julius and Eleanor November, applicants to intervene here, who were represented by Nevada counsel, and who were advised in open court that they were free to participate fully in the hearing and to interrogate any witnesses. In addition to hearing witnesses who testified in person, the Nevada Court received in evidence numerous exhibits, including, among other exhibits, all the depositions taken in the Nevada case, the pleadings in the various stockholders derivative and representative actions heretofore filed in various jurisdictions [476] purporting to be prosecuted on behalf of RKO or its stockholders, and certain affidavits filed in support of and in

opposition to an application pending in the Supreme Court of New York, seeking the appointment of a receiver for all the New York assets of RKO and Radio.

8. The Nevada Court took the motion under submission at the close of the hearing on March 23, 1954, and on March 30, 1954, entered its Interlocutory Order and filed Findings of Fact and Conclusions of Law.

9. Such Interlocutory Order recited, among other things, that Hughes had offered to purchase all the assets of RKO; that the consummation of such sale would extinguish all claims and causes of action asserted, or which may be asserted, against Hughes by or on behalf of RKO; that the offer when consummated will result in a compromise of all derivative and representative actions; and that the offer by Hughes is fair and reasonable and that the sale should be approved as a compromise and settlement of the action. The Interlocutory Order accordingly approved the sale pursuant to the provisions of Rule 23 (c) of the Nevada Rules of Civil Procedure, such rule being in its terms similar to Rule 23 (c) of the Federal Rules of Civil Procedure. The Interlocutory Order provided for entry of a Final Order at any time within ten days, without further notice, upon an affidavit showing that the purchase agreement had been consummated.

10. The Findings of Fact and Conclusions of Law of the Nevada Court consisted of 23½ legal-

sized typed pages, containing numbered paragraphs setting forth extensive findings from the evidence before that Court. Included among such findings and conclusions were:

- a. Paragraph 7: That five other derivative actions are pending in various jurisdictions "alleging the same charges and seeking the same or similar relief. * * * In none [477] of these actions, except the instant" Nevada "one has the defendant Hughes been personally served or made an appearance." Paragraph 9 identified the Castleman-California action, in which this motion is made, as one of such five.
- b. Paragraph 24 concluded that the method employed by the directors of RKO in examining the offer and recommending it to the stockholders was proper and that the offer included an "ample and fair consideration for the sale of the assets not capable of precise evaluation, including the derivative stockholders' actions."
- c. Paragraph 26 found as a fact and concluded as a matter of law that the charges in the Nevada action and the evidence received covered the charges in the other actions and that "what I have found with respect to the charges of the complaint in the action before this Court applies with equal force to the charges of the complaints in these various other actions and forecloses prosecution on the merits of such other complaints."
- d. Paragraph 37 found and concluded "that the

compromise which will be effected by the defendant Hughes' purchase of the corporate assets, pursuant to his offer, is fair and adequate; that it is in the interest of the corporation and its stockholders that the compromise effected by the offer be accepted; and that it is in the interest of the stockholders and the corporation that such compromise be approved and that this action be dismissed as to all defendants with prejudice."

e. Paragraph 38 took cognizance of the fact that charges had been made that the Nevada Court's jurisdiction is a product of collusion. Such charges or insinuations have been made in the present California-Castleman action. Paragraph 38 of the Nevada Court's findings and conclusions [478] noted that such charges had been denied, and then reviewed the circumstances preceding the institution of the Castleman-Nevada action. Paragraph 39 found as a fact and concluded as a matter of law "that this [Nevada] Court's jurisdiction is not a product of collusion of any type; that Howard R. Hughes resides and is domiciled in Nevada; that this action is, and has been conducted as a truly adversary proceeding; that plaintiffs have prosecuted this action diligently; that the stockholders of RKO have been fully and adequately represented by plaintiffs; and that the judgment dismissing this action with prejudice is binding upon all other stockholders of RKO."

11. On April 1, 1954, the fact of the consummation of the sale of assets on March 31, 1954, was

duly reported to the Nevada Court. On April 1, 1954, the Nevada Court entered its Final Judgment dismissing the Castleman-Nevada action with prejudice, finding and determining that there was no just cause for delay, directing that the judgment be forthwith entered as final, and reserving jurisdiction for the sole purpose of determining and allocating all costs and fees, if any, allowable to the plaintiffs in any stockholders' representative or derivative actions, wherever pending, and of hearing and determining the cross-motion of the Castlemans, et al., pending in the Nevada Court, for an award of costs and fees.

12. On February 16, 1954, one Louis Schiff and one Jacob Sack, alleging themselves to be stockholders of RKO, filed Civil Action No. 491 in the Court of Chancery of the State of Delaware in and for New Castle County, at Wilmington, Delaware, against RKO and certain individual defendants seeking to enjoin RKO from proceeding with the sale of its assets pursuant to the offer of Hughes on the alleged ground that the offer was "grossly inadequate, the inadequacy being so gross and extreme as to [479] display and constitute on its face, fraud." RKO filed its answer to such complaint on February 18, 1954, and the case was tried on its merits beginning March 8, 1954. On March 26, 1954, the Chancellor of the Delaware Court of Chancery handed down a 34-page opinion holding that the plaintiffs were not entitled to the relief sought, and

directing judgment on the merits in favor of RKO. Thereafter, such judgment was duly entered.

13. It is respectfully submitted that the above-outlined proceedings, which will be further authenticated by certified copies of the relevant documents from the Nevada and Delaware courts which will be put in evidence on the hearing of this motion, bar the prosecution of this action in this Court and justify this Court in dismissing this action on the merits, with prejudice.

14. It is further respectfully submitted that there are no ancillary issues before this Court requiring it to retain jurisdiction of this action for any purpose whatsoever. The Nevada Court has caused notice to be served on all plaintiffs in all representative and derivative actions, wherever pending, purporting to be brought on behalf of RKO or its stockholders, by notice to all counsel who have appeared for any such stockholders, directing such plaintiffs to show before the Nevada Court on April 5, 1954, any claims that they may have for reimbursement of expenses, if any, including attorneys' fees, if any, incident to any such action. Moreover, the plaintiffs Castleman, et al., have moved in the Nevada Court for such allowance. The Castlemans' claim, if any they have, for such expenses and fees, is a single and indivisible claim, and cannot properly be litigated piecemeal in several courts. Plaintiffs have put the matter in issue in the Nevada Court, and cannot also litigate it in this Court.

Wherefore, it is respectfully submitted that this action should be dismissed with prejudice.

/s/ ROY W. McDONALD.

Subscribed and sworn to before me this 2nd day of April, 1954.

[Seal] /s/ LORETTA G. JONES,
 Notary Public in and for
 Said County and State.

My commission expires April 9, 1954. [480]

EXHIBIT A

February 7, 1954.

RKO Pictures Corporation,
1270 Avenue of the Americas,
New York, New York.

Gentlemen:

I hereby offer to purchase from RKO Pictures Corporation all of its assets as of the date of transfer to me, including any and all claims or causes of action of every kind or character against or which might be asserted against, any person or persons, including me.

I agree to pay for such assets the sum of \$23,489,478 in cash upon transfer of the assets to me. (The total number of shares of stock outstanding of RKO Pictures Corporation is 3,914,913.

\$23,489,478 divided by 3,914,913 shares equals \$6 per share.)

This offer and all obligations of mine pursuant hereto are conditioned upon the following, and time in each instance is of the essence:

a. The assets shall be free and clear of all liens, charges, or encumbrances, except that I agree to the taking of such measures as may be considered necessary or proper for causing one or more of the operating subsidiaries of RKO Pictures Corporation to assume all liabilities of RKO Pictures Corporation prior to the transfer to me of the assets hereunder.

b. Acceptance of this offer not later than 6:00 p.m., Eastern Standard Time, February 15, 1954, by a duly constituted officer of RKO Pictures Corporation, pursuant to full authority and direction thereunto given him by the Board of Directors of RKO Pictures Corporation, and which acceptance must be unconditional except that it must be subject to approval by the stockholders of RKO Pictures Corporation, as hereinafter provided.

c. Approval of the acceptance of this offer not later than March 31, 1954, by the affirmative vote of a majority of the stock, other than stock owned by me, voting at a properly held stockholders' meeting of RKO Pictures Corporation, convened not later than March 30, 1954, at which a proposal to ratify the acceptance is properly before the meeting.

d. Approval of the acceptance of this offer at

the same meeting by affirmative vote of a majority of all of the issued and outstanding stock of RKO Pictures Corporation.

e. Adjournment of the said stockholders' meeting not later than 6:00 p.m., Eastern Standard Time, March 31, 1954, and the mailing to me of a certified copy of the resolution of the stockholders approving the acceptance of this offer not later than two (2) days following such adjournment.

f. The rendering to me of a written opinion by the attorneys for RKO Pictures Corporation no later than March 31, 1954, that sale and transfer to me of the assets pursuant to this offer has been duly and legally authorized by proper resolution of the Board of Directors of RKO Pictures Corporation and by proper resolution of the stockholders of said corporation.

g. Transfer to me of the assets sold pursuant to this offer shall be consummated not later than 10:00 a.m., Eastern Standard Time, April 2, 1954, either at the principal office of the Commercial Trust Company of New Jersey in the City of Jersey City and State of New Jersey, or at such other place as may be agreed upon by the parties hereto, and [481] such transfer shall be accompanied by a written opinion rendered to me from the attorneys for RKO Pictures Corporation that such transfer shall effectively pass to me full title and control of all assets covered hereby and subject to no liens or encumbrances whatsoever.

h. There shall have been no transfer of any substantial assets of RKO Pictures Corporation prior to transfer to me of the assets covered hereby pursuant hereto, except transfers in the normal course of business or with my written consent.

Failure of any of the foregoing conditions shall render any contract pursuant hereto null and void.

If this offer is accepted by the duly constituted and authorized officer as provided in subparagraph b above, then, at the said stockholders' meeting, I agree to vote 1,262,120 shares of stock of RKO Pictures Corporation presently owned by me to approve the acceptance of this offer.

In order to permit each RKO stockholder (other than me) to receive promptly his pro rata portion of the \$23,489,478 which will be paid to RKO upon compliance with the terms hereof, I agree that at the said stockholders' meeting convened not later than March 30, 1954, I will vote all of my stock in favor of a resolution to accomplish the following:

RKO Pictures Corporation will, in reduction of its capital, pay \$6 in cash per share for all shares (other than the 1,262,120 shares owned by me) tendered for redemption during the 60-day period following the adoption of this resolution, or during such longer period as may be considered desirable by the company's attorneys.

To assure protection to the stockholders of RKO Pictures Corporation against any possible assertion

of liability by any creditor of said corporation with respect to money received by any stockholder in the redemption of his shares, I agree to hold harmless each stockholder (whose stock is redeemed pursuant to any resolution such as above set forth) against any asserted liability for corporate debts, provided I am given reasonable notice of and an opportunity to defend against any such claim.

I hereby affirm that there is no offer outstanding to me for any of the assets which I propose to purchase hereunder.

I call your attention to the following:

- a. There have been expressions of dissatisfaction among the stockholders.
- b. I have been sued by certain of the stockholders and accused of responsibility for losses of the corporation.
- c. I would like to feel that I have given all the stockholders of RKO Pictures Corporation an opportunity to receive for their stock an amount well in excess of its market value at the time when I first became connected with the company, or at any time since.

/s/ HOWARD R. HUGHES,

HOWARD R. HUGHES. [482]

“EXHIBIT B”

In the Eighth Judicial District Court of the State
of Nevada, in and for the County of Clark

Case No. 59422—Dept. No. 1

ELI B. CASTLEMAN and MARION V. CASTLE-
MAN, Doing Business as WOLVERINE TEX-
TILE COMPANY, and LOUIS FEUERMAN,

Plaintiffs,

vs.

J. MILLER WALKER, FRANCIS J. O'HARA,
JR., HOWARD R. HUGHES, NOAH DIET-
RICH, NED E. DEPINET, HUGHES TOOL
COMPANY, RKO PICTURES CORPORA-
TION, RKO RADIO PICTURES, INC.,
JAMES R. GRAINGER and A. DEE SIMP-
SON,

Defendants.

MOTION TO DISMISS

The defendant, Howard R. Hughes, moves the court to dismiss with prejudice the action against all defendants for the reasons set forth below:

1. On February 7, 1954, by the instrument attached to this motion as Exhibit “A,” this defendant offered to purchase all of the assets of RKO Pictures Corporation.
2. Such offer, if accepted by the corporation and approved by the stockholders, will effectively extinguish all claims and causes of action against this

defendant and will render this pending action moot as to this defendant.

3. Also, if such offer is accepted by the corporation and approved by the stockholders, it will vest in this defendant all claims and causes of action of RKO Pictures Corporation against the defendants J. Miller Walker, Francis J. O'Hara, Jr., Noah Dietrich, Ned E. Depinet, Hughes Tool Company, James R. Grainger, and A. Dee Simpson, and will vest in this defendant all of the capital stock of RKO Radio Pictures, Inc.; and this defendant hereby asserts that he will not prosecute against such defendants any claim or cause of action which may be vested in him, and will not permit to be prosecuted any claims or causes of action against the said named defendants on behalf of RKO Radio Pictures, Inc.

4. The order of dismissal may recite that the cause shall be reinstated in the event that the sale is not consummated pursuant to the offer.

WOODBURN, FORMAN &
WOODBURN,
206 N. Virginia Street,
Reno, Nevada, and

T. A. SLACK,

7000 Romaine Street, Hollywood 38, California, Attorneys for Defendant, Howard R. Hughes. [483]

"EXHIBIT C"

Notice Pursuant to Order Entered February 11, 1954, of Hon. Frank McNamee, Judge of the Eighth Judicial District Court of the State of Nevada in and for the County of Clark

In the Eighth Judicial District Court of the State of Nevada, in and for the County of Clark

Case No. 59422—Dept. No. 1

ELI B. CASTLEMAN and MARION V. CASTLEMAN, Doing Business as WOLVERINE TEXTILE COMPANY, and LOUIS FEUERMAN,

Plaintiffs,

vs.

J. MILLER WALKER, FRANCIS J. O'HARA, JR., HOWARD R. HUGHES, NOAH DIETRICH, NED E. DEPINET, HUGHES TOOL COMPANY, RKO PICTURES CORPORATION, RKO RADIO PICTURES, INC., JAMES R. GRAINGER and A. DEE SIMPSON,

Defendants.

NOTICE OF COURT HEARING

You are hereby notified that in the event that the stockholders of RKO Pictures Corporation at the meeting of stockholders to be held on March 12, 1954,* shall approve the sale of the assets of RKO

*By Order of the Court dated February 16, 1954, the notice was amended so as to change this date to March 18, 1954.

Pictures Corporation pursuant to the terms of the offer of Howard R. Hughes, there will be presented to the Eighth Judicial District Court of the State of Nevada, County of Clark, at Las Vegas, Nevada, on the 22nd day of March, 1954, the motion of the defendant, Howard R. Hughes, to dismiss with prejudice the cause pending in said court, being Case No. 59422, Eli B. Castleman, et al., vs. J. Miller Walker, et al. A copy of such Motion to Dismiss is attached to this Notice.

You are notified of the pendency of the hearing upon such motion on the 22nd day of March, 1954, in order that you may take any action with respect thereto before this court which may be proper.

[Endorsed]: Filed April 7, 1954. [484]

[Title of District Court and Cause.]

AFFIDAVIT OF JULIUS NOVEMBER

State of New York,
County of New York—ss.

Julius November being first duly sworn, deposes and says:

1. I am one of the proposed interveners and petitioners in the above action.
2. I have read the Petition filed by Bernard Reich in my wife Eleanor and my behalf and I incorporate said Petition in this affidavit as if I were

to repeat and reallege the allegations contained therein.

3. I confirm that Bernard Reich is our attorney and authorized to appear for us in this action.

/s/ JULIUS NOVEMBER.

Subscribed and sworn to before me this 1st day of April, 1954.

/s/ EDWARD L. GLAZER,
Notary Public, State of New
York.

Term Expires March 30, 1956.

Affidavit of Service by Mail attached.

[Endorsed]: Filed April 12, 1954. [485]

[Title of District Court and Cause.]

AFFIDAVIT

State of New York,
County of New York—ss.

Louis Kipnis, being duly sworn, deposes and says: I am one of the attorneys for the plaintiffs in the above-entitled action.

I have examined the affidavit of Roy W. McDonald in support of the motion of defendant RKO Radio Pictures, Inc., to dismiss this action with prejudice.

I have also examined memorandum of points and authorities and the motion.

In the light of the facts and circumstances set forth in all the documents above referred to and in turn incorporated by reference, plaintiffs do not oppose the within motion.

/s/ LOUIS KIPNIS.

Sworn to before me this 12th day of April, 1954.

/s/ AARON SCHWARTZ,
Notary Public, State of New
York.

Term Expires March 30, 1956.

Affidavit of Service by Mail attached.

[Endorsed]: Filed April 15, 1954. [487]

[Title of District Court and Cause.]

MINUTES OF THE COURT—APRIL 19, 1954

Present: Hon. Ben Harrison,
District Judge.

Counsel for Plaintiffs: no appearance;

Counsel for Defendants: no appearance;

Proceedings:

For hearing (1) motion of plaintiffs to vacate in part order docketed and entered Jan. 12, 1954, and for other relief;

(2) Application of plaintiffs for leave to take the deposition of Howard R. Hughes; pursuant to motion, notice, memo of points and authorities, and affidavit of Bernard Reich, and notice of intention to apply for deposition of Howard R. Hughes, filed Feb. 4, 1953;

(3) Further hearing of Bernard Reich, Esq., Local Attorney of Record for the plaintiffs for appointment of a Special Master; pursuant to Rule 53 of FRCP, and pursuant to motion, affidavit of Bernard Reich, filed, filed Nov. 16, 1953, and renote of hearing, filed March 11, 1954;

(4) Motion of plaintiffs and the proposed Intervenors, Julius November and Eleanor November, to add and join parties plaintiff, or for leave to intervene, pursuant to motion, petition, affidavit of Bernard Reich, and memo. of points and authorities, and notice, filed March 11, 1954;

(5) Motion of defendant RKO Radio Pictures, Inc., for dismissal of this action with prejudice, pursuant to notice, motion, points and authorities, and affidavit, filed April 7, 1954.

It is Ordered that cause is continued to May 17, 1954, 11 a.m., for hearing motions (1) to (4), incl., and continued to June 28, 1954, 11 a.m., for hearing motion (5), pursuant to order filed April 15, 1954.

EDMUND L. SMITH,
Clerk.

By MURRAY E. WIRE,
Deputy Clerk. [489]

[Title of District Court and Cause.]

MINUTES OF COURT—MAY 17, 1954

Present: Hon. Ben Harrison,
District Judge.

Counsel for Plaintiffs: Bernard Reich,
local counsel for plaintiffs and proposed
intervenors;

Counsel for Defendants: George Benedict,
Jr., for def't. RKO Radio Pictures, Inc.

Proceedings:

For (1) hearing motion of plaintiffs to vacate in part order docketed and entered Jan. 12, 1954, and for other relief;

(2) Application of plaintiffs for leave to take the deposition of Howard R. Hughes; pursuant to motion, notice, memo. of points and authorities, and affidavit of Bernard Reich, and notice of intention to apply for deposition of Howard R. Hughes, filed Feb. 4, 1954;

(3) Further hearing on motion of Bernard Reich, Esq., local attorney of record for the plaintiffs for appointment of a Special Master, pursuant to Rule 53 of FRCP, and pursuant to motion, affidavit of Bernard Reich, filed Nov. 16, 1953, and renotice of hearing, filed March 11, 1954;

(4) Hearing motion of plaintiffs and the proposed intervenors, Julius November and Eleanor

November, to add and join parties plaintiff, or for leave to intervene, pursuant to motion, petition, affidavit of Bernard Reich, and memo. of points and authorities, and notice, filed March 11, 1954;

(5) Hearing motion of plaintiffs to quash depositions noticed by Louis Kipnis, Leo B. Mittelman, and Robert Silver, Esqs., purported attorneys for plaintiffs, as noticed April 9, 1954, of witnesses,

Benjamin F. Schwartz,

Tom Pryor,

Joe Schoenfeld,

John Doe (Hollywood Editor Associated Press),

Richard Roe (Hollywood Editor United Press),

Mickey Rudin,

Solomon Gelfand,

Phil Wershil,

Ed Schweid,

Julius November,

Eleanor November, and

Bernard Fischman,

pursuant to notice, motion, affidavit of Bernard Reich, and Memo. of Points and authorities, filed April 15, 1954.

Each of Attorneys Reich and Benedict makes a statement.

Court makes a statement and Orders cause con-

tinued to June 28, 1954, 11 a.m., for hearing as set forth above, on the Court's own motion.

EDMUND L. SMITH,
Clerk.

By MURRAY E. WIRE,
Deputy Clerk. [490]

EXHIBIT No. 1

[Attached to Affidavit of George Benedict, Jr.]

Case No. 59422

Dept. No. 1

In the Eighth Judicial District Court of the State of
Nevada in and for the County of Clark

ELI B. CASTLEMAN and MARION V. CASTLE-
MAN, Doing Business as Wolverine Textile
Company, and Louis Feuerman,

Plaintiffs,

vs.

J. MILLER WALKER, et al.,

Defendants.

MOTION

To Said Honorable Court:

The defendants, RKO Pictures Corporation and RKO Radio Pictures, Inc., (herein collectively referred to as RKO) move this Court on the affidavit of A. W. Ham, Jr., sworn to on March 17, 1954,

and the exhibits attached thereto and for the reasons stated therein for an order:

(a) determining what portions, if any, of the sum which will be paid to defendant RKO Pictures Corporation by defendant Howard R. Hughes, in the event said Hughes purchases all of RKO Picture Corporation's assets, shall be allocated for payment of the costs, if any, and disbursements, if any, of all plaintiffs in all of the stockholders' actions wherever now pending, purporting to be brought on behalf of the stockholders, or any of them, of defendant RKO Pictures Corporation or on behalf of said defendant against Howard R. [493] Hughes and other individual defendants and Hughes Tool Company, including in said sum such amount, if any, as the Court may determine represents a fair and reasonable allowance for counsel fees, if any, and other lawful expenses, if any, in connection with the prosecution of any and all said stockholders' actions, derivative and/or representative; and

(b) determining and fixing the respective interests, if any, in said allocated fund, if any, of each of the plaintiffs in each of the various stockholders' actions, derivative and/or representative, wherever they are now pending;

(c) directing that the RKO defendants upon proof of payment of the respective interests, if any, as determined and fixed by this Court in accordance with paragraphs (a) and (b) above, either to the party or into the registry of this Court for the ac-

count of such party, be released and discharged from any and all liability to each of the plaintiffs in each of the various stockholders' actions, derivative and/or representative, wherever they are now pending, in connection with said plaintiffs' costs, if any, and disbursements, if any, in said actions as such costs and disbursements are described in paragraph (a) above; and

(d) for such other and further relief as the RKO defendants may prove themselves to be entitled to receive.

Dated: March 17, 1954.

HAM & HAM and
DONOVAN, LEISURE,
NEWTON & IRVINE,

Attorneys for Defendants RKO Pictures Corporation and RKO Radio Pictures, Inc.,

By /s/ A. W. HAM, JR.,

A. W. HAM, JR.

[Endorsed]: Filed March 19, 1954, Nevada District Court. [494]

EXHIBIT No. 2

[Attached to Affidavit of George Benedict, Jr.]

Case No. 59422

Dept. No. 1

In the Eighth Judicial District Court of the State of
Nevada in and for the County of ClarkELI B. CASTLEMAN and MARION V. CASTLE-
MAN, Doing Business as Wolverine Textile
Company, and LOUIS FEUERMAN,

Plaintiffs,

vs.

J. MILLER WALKER, et al.,

Defendants.

ORDER

Upon reading and filing the motion of RKO Pictures Corporation and RKO Radio Pictures, Inc., (herein collectively called "RKO") together with the affidavit of A. W. Ham, Jr., sworn to on March 17, 1954, and the exhibits attached thereto, in support of such motion, it is

Ordered, that the motion of RKO for a hearing and determination as to what portion, if any, of the sum which will be paid by the defendant Hughes for all of the assets of defendant RKO Pictures Corporation, if such sale be consummated, shall be allocated for payment of all costs and disbursements, if any, including all counsel fees, if any, and all other lawful expenses, if any, of all plaintiffs in all stockholders' actions, derivative and/or representative, wherever now pending; and

For a hearing and determination as to the [515] apportionment of such sum, if any, among all such plaintiffs to the extent any such plaintiffs shall show themselves entitled to participate in such fund; and

For such other and further relief as movants may show themselves entitled to receive:

Shall be set before this Court at Las Vegas, Nevada, on the 5th day of April, 1954, at 9:30 a.m.

Ordered Further, that the plaintiffs herein are hereby stayed from prosecuting their cross-motion, presently returnable March 22, 1954, for costs and disbursements until after the hearing and determination of the aforesaid motion of the RKO defendants.

Ordered Further, that service of a copy of this order, together with a copy of the RKO defendants' aforesaid Motion and the affidavit in support thereof, on the plaintiffs and their attorneys in each of the pending stockholders' actions derivative and/or representative, wherever now pending, made by mailing copies of said papers in securely post-paid wrappers, registered mail, return receipt requested, to each attorney who has appeared on behalf of the plaintiffs in each of the said stockholders' actions, on or before March 22, 1954, shall be deemed sufficient notice to said plaintiffs and their attorneys of the pendency of said motion by the RKO defendants. Where a plaintiff is represented by one or more firms of attorneys, service shall be sufficient if such copies are mailed to each such firm, directed to

the firm name appearing on the respective complaints.

A. S. HENDERSON.

[Endorsed]: Filed March 20, 1954, Nevada District Court. [516]

EXHIBIT No. 3

[Attached to Affidavit of George Benedict, Jr.]

Case No. 59422

Dept. No. 1

In the Eighth Judicial District Court of the State of Nevada in and for the County of Clark

ELI B. CASTLEMAN and MARION V. CASTLEMAN, Doing Business as WOLVERINE TEXTILE COMPANY, and LOUIS FEUERMAN,

Plaintiffs,

vs.

J. MILLER WALKER, FRANCIS J. O'HARA, JR., HOWARD R. HUGHES, NOAH DIETRICH, NED E. DEPINET, HUGHES TOOL COMPANY, RKO PICTURES CORPORATION and RKO RADIO PICTURES, INC.,

Defendants.

FINDINGS OF FACT AND
CONCLUSIONS OF LAW

A. Nature of Action and Motion

1. Defendant Howard R. Hughes (hereinafter called "Hughes") has moved to dismiss with preju-

dice this stockholders' derivative action brought on behalf of defendants RKO Pictures Corporation (hereinafter called "RKO") and its wholly-owned subsidiary, RKO Radio Pictures, Inc., (hereinafter called "Radio"), on the ground that acceptance of his offer to purchase all the assets of RKO for \$23,-489,478.00 and consummation of such sale pursuant to the offer will effectively extinguish all claims and causes of action against him asserted or which may be asserted by or on behalf of such corporation and/or any of its wholly-owned subsidiaries and will make this action against them moot; and on the ground that consummation of such sale will vest in him all claims and causes of action of RKO and/or Radio (hereinafter sometimes referred to collectively as "the RKO corporations") which [518] claims or causes of action he will not prosecute and will not permit to be prosecuted.

2. By this Court's Order, entered February 11, 1954, as amended February 16, 1954, hearing on the motion to dismiss was set for March 22, 1954, and pursuant to motion of the defendant Hughes, notice of such hearing in a form approved by this Court was directed to be given to all the stockholders of RKO. Such notice was duly and timely given by mailing a copy of this notice to each stockholder with the proxy statement, and the hearing began on March 22, 1954.

3. Pursuant to Rule 23 (c) of the Nevada Rules of Civil Procedure I have examined into the fairness of the offer submitted by Hughes since the

Federal Court in Los Angeles, California. On March 4, 1953, an amended complaint was filed which added some detailed charges but did not change the nature of the basic claims asserted. This California action alleges both of the causes of action asserted in the present Nevada action.

10. Friedman, California, (state court): On April 20, 1953, Milton Friedman instituted a suit in a state court in California alleging the second cause of action asserted in the present Nevada action.

11. Friedman, California (Federal Court): On April 27, 1953, the same Milton Friedman instituted another action in a Federal Court in Los Angeles, California, charging a violation of Section 16 (b) of the Securities and Exchange Act of 1934 and seeking damages from Hughes and Depinet as a result of the sale of their RKO stock to Screen Associates, Inc., and the subsequent return of such stock to [520] them.

12. Schiff, New York: In August, 1953, Louis Schiff and Jacob Sack instituted a suit in a state court in New York alleging the first cause of action asserted in the present Nevada action.

13. Schiff and Sack also instituted a representative action on behalf of all the stockholders of RKO on February 16, 1954, in the Chancery Court of the State of Delaware seeking to enjoin the consummation of the sale of RKO's assets to Hughes on the ground that such sale was fraudulent. RKO

promptly appeared, answered and moved for an immediate trial. This motion was granted and trial began on March 8, 1954. RKO, in the meantime, at plaintiffs' request, produced four of its personnel for examination by plaintiffs before trial. The trial concluded on March 11, 1954. Decision has been reserved.

14. Schiff and Sack on February 18, 1954, also instituted a representative action on behalf of all stockholders of RKO on February 18, 1954, in the Supreme Court of the State of New York. This action was in all material respects identical with the Delaware action described in paragraph 13.

C. Hughes' Offer and Corporate Action

15. On February 7, 1954, the defendant Hughes offered to purchase all of the assets of RKO Pictures Corporation for \$23,489,478.00 in cash subject to certain conditions set forth in such offer.

16. The board of directors on February 12 and 13, 1954, considered such offer and on the latter date accepted same and authorized a duly constituted officer of RKO Pictures Corporation to accept the same subject to approval of the stockholders of RKO in the manner specified in the offer.

17. I find that prior to taking any action upon the consideration or acceptance of the Hughes' offer, the board of directors of RKO was enlarged and new directors were elected, and that the quorum of

four directors who considered the offer and authorized its acceptance consisted exclusively of individuals who were not defendants in any pending stockholders' action; that they were not interested in the transaction represented by the offer; that they exercised their independant judgment in considering the merits of the proposed sale, and that they concluded on the basis of such consideration [521] that it was in the interest of the corporation to accept such offer.

18. Thereafter, the president of RKO, being a duly constituted officer of RKO, did accept such offer of Hughes, subject to approval of the stockholders of RKO in the manner specified in the offer.

19. In conformity with the bylaws of the corporation and the regulations of the Securities and Exchange Commission a proxy statement was mailed to each stockholder of RKO setting forth the terms and conditions of the offer and all other relevant information accompanied by a formal proxy to be signed by the stockholder authorizing the vote of the stockholder's share for or against the proposed sale of the assets of RKO pursuant to such offer.

20. On March 18, 1954, the stockholders of RKO met pursuant to the call of the directors at Dover, Delaware. At such meeting there were represented by proxy a total of 3,358,116 shares out of the total of 3,891,562 shares of the common stock of RKO issued outstanding and entitled to vote.

21. At such meeting of the stockholders a resolu-

tion was submitted approving the acceptance of the offer of Hughes for the purchase of all the assets. The vote upon such resolution in the affirmative was 3,284,889 shares consisting of 2,022,769 shares owned by stockholders other than Hughes and 1,262,120 shares owned by Hughes. The vote against the adoption of the resolution was 73,227 shares.

22. I find that the occurrences and procedures recited above conform to applicable law and to the provisions of Article 18 of the certificate of incorporation of RKO Pictures Corporation; and in view of my findings and conclusions herein set forth, I further conclude that when the sale transaction is consummated it will be valid to transfer title to the assets of RKO Pictures Corporation to Howard R. Hughes, as provided in the offer.

D. Evaluation of Corporate Assets Other Than Stockholders' Derivative Suits

23. The Hughes offer did not allocate any portion of the stated consideration, \$23,489,478.00, to any specific assets of the corporation. The board of directors of RKO Pictures Corporation, however, in considering the offer and the desirability of its acceptance reviewed at length the [522] nature of the various assets and liabilities and the available facts bearing upon their value or amount.

24. The analysis by the board of directors covered not only the assets and liabilities as stated in the current balance sheet of the corporation but also the respects in which the book values of such

assets and liabilities may not reflect their present value or amount, as well as all other potential assets or liabilities of the company not included in the balance sheet. In appraising the fairness and adequacy of the Hughes offer the directors recognized that the values of certain of the assets and liabilities were not precisely determinable, including the film library, the restricted foreign funds, and the possible contingent asset of the stockholders' actions. Without specifically allocating any portion of the stated consideration of \$23,489,478.00 to such not precisely determinable assets, the board considered the same and arrived at its decision that the offer was fair, and that it was expedient and in the best interests of the corporation to accept the same and recommend its acceptance to the stockholders. In view of my further findings with respect to the merits of the present and related litigation, I have reached the conclusion that the method employed by the directors was a proper one; and I find that after allocating the necessary part of such purchase price to those assets capable of specific evaluation, there remains a reasonable margin, which after weighing all of the factors, I find to be an ample and fair consideration for the sale of the assets not capable of precise evaluation, including the derivative stockholders' actions.

25. I conclude that the purposes of Rule 23 (c) of the Nevada Rules of Civil Procedure are met if the Court finds from a consideration of all the facts that the entire transaction is fair and reasonable

and I further conclude that the Court is not required to find specifically as to the exact portion of the purchase price allocable to a compromise of the pending derivative actions.

E. Analysis of Charges Against the Defendants Other Than RKO and Against Other Directors

* * *

F. Approval of Compromise

37. I find and conclude that the compromise which will be effected by the defendant Hughes' purchase of the corporate assets, pursuant to his offer, is fair and adequate; that it is in the interest of the corporation and its stockholders that the compromise effected by the offer be accepted; and that it is in the interest of the stockholders and the corporation that such compromise be approved and that this action be dismissed as to all defendants with prejudice.

G. Charge That These Proceedings Are Collusive

38. It has been variously charged in ancillary proceedings had herein as well as in other actions pending elsewhere that this court's jurisdiction is a product of collusion; that this action is not truly adversary; and that the representation of the other stockholders of RKO by the plaintiffs is inadequate. These charges, however made, have been specifically denied by everyone whose activities have been impugned thereby, and I have received and considered

evidence thereon. I find from the evidence that after three highly-publicized derivative actions had been instituted in various jurisdictions, in none of which Howard R. Hughes was served or appeared, Floyd Odlum (whose firm, Atlas Corporation, is a large stockholder of RKO) sought to end the injury to RKO through newspaper trial by submitting the controversy to speedy judicial determination with the chips to fall where they may. At a conference arranged by Odlum, Hughes' representative stated that plaintiffs were free to pursue any policy or course they desired but if they instituted suit in Las Vegas, Nevada, where Hughes resides and is domiciled, he would appear and answer. I find that no other agreement or understanding, express or tacit, was made by the parties or their counsel. Plaintiffs thereafter instituted this action and Hughes appeared and answered. Hughes Tool Company and the individual defendants also appeared and answered. The RKO corporate defendants, indispensable parties to this action, likewise appeared and answered, believing it to be in the best interests of the stockholders, and so notifying them of that conclusion to have the controversy litigated in an action wherein Hughes was a defendant. Plaintiffs have [540] examined before trial in connection with this action more than twenty parties and witnesses whose testimony runs to more than 2,500 pages. More than 180 exhibits have been marked for identification in the course of those examinations. This action was set for trial on January 4, 1954, at which time plaintiffs' counsel were

stayed from prosecuting it by virtue of an order issued by the New York Court in connection with an appeal taken by the stockholder plaintiffs in an action pending in that Court.

39. I find as conclusions of fact and of law that this Court's jurisdiction is not a product of collusion of any type; that Howard R. Hughes resides and is domiciled in Nevada; that this action is, and has been conducted as a truly adversary proceeding; that plaintiffs have prosecuted this action diligently; that the stockholders of RKO have been fully and adequately represented by plaintiffs, and that the judgment dismissing this action with prejudice is binding upon all other stockholders of RKO.

Dated: March 30, 1954.

FRANK McNAMEE,
District Judge.

[Endorsed]: Filed March 30, 1954, Nevada
District Court. [541]

EXHIBIT No. 4

[Attached to Affidavit of George Benedict, Jr.]

Case No. 59422

Dept. No. 1

In the Eighth Judicial District Court of the State of
Nevada in and for the County of ClarkELI B. CASTLEMAN and MARION V. CASTLE-
MAN, Doing Business as WOLVERINE TEX-
TILE COMPANY, and LOUIS FEUERMAN,

Plaintiffs,

vs.

J. MILLER WALKER, FRANCIS J. O'HARA,
JR., HOWARD R. HUGHES, NOAH DIET-
RICH, NED E. DEPINET, HUGHES TOOL
COMPANY, RKO PICTURES CORPORA-
TION and RKO RADIO PICTURES, INC.,

Defendants.

ORDER

On the 22nd day of March, 1954, came on to be heard the motion of defendant Howard R. Hughes to dismiss this proceeding. Appearing in court were all parties to this action duly represented by counsel, and also appearing by counsel were the following stockholders, not parties to the action: Julius November, Eleanor November, and Sidney Schwartz.

Upon the pleadings and the evidence, it appearing to the Court that the defendant Hughes has offered to purchase all the assets of the defendant RKO Pictures Corporation for \$23,489,478.00; that the consummation of such sale will extinguish all claims and causes of action asserted, or which may be asserted, against Hughes by or on behalf of such corporation or any of its wholly-owned subsidiaries; that the consummation of such sale will vest in him all claims and causes of action against all other defendants and directors; that he has stated he will not prosecute [543] and will not permit to be prosecuted the causes of action, if any, with respect to defendants Hughes Tool Company, Depinet, Dietrich, O'Hara, and Walker, or with respect to the other directors; that the offer when consummated will result in a compromise of this and all other derivative and representative actions and will render them moot.

It further appearing that pursuant to the order of this Court dated February 11, 1954, as amended February 16, 1954, due and timely notice of the hearing upon such motion to dismiss this action with prejudice was given to all stockholders of RKO Pictures Corporation by mailing to each such stockholder, with the proxy statement dated February 28, 1954, a copy of such notice in the form directed by this Court; and that no stockholder or party has appeared to oppose the dismissal; and it further appearing on the basis of the Findings of Fact and Conclusions of Law filed herewith that such offer

is fair and reasonable and that the sale of all the assets of RKO Pictures Corporation to Howard R. Hughes in accordance therewith should be approved as a compromise and settlement of this action,

It is accordingly Ordered, that the sale of all of the assets of RKO Pictures Corporation to the defendant Howard R. Hughes is hereby approved by the Court pursuant to the provisions of Rule 23 (c) of the Nevada Rules of Civil Procedure. This Order is interlocutory only; and at any time within ten days from the date of this Order a Final Order dismissing the cause of action with prejudice may be entered by any party without notice to any other parties upon an affidavit showing that the purchase agreement has been consummated, such Final Order to provide, however, that this Court shall retain jurisdiction of this cause for the sole purpose of hearing and determining plaintiffs' cross-motion for award of costs and fees and the motion of defendant RKO Pictures Corporation to settle all costs and fees, unless theretofore determined by stipulation.

Entered this 30th day of March, 1954.

FRANK McNAMEE,
District Judge.

[Endorsed]: Filed March 30, 1954, Nevada District Court [544]

EXHIBIT No. 5

[Attached to Affidavit of George Benedict, Jr.]

Case No. 59422

Dept. No. 1

In the Eighth Judicial District Court of the State of
Nevada in and for the County of Clark

ELI B. CASTLEMAN and MARION V. CASTLE-
MAN, Doing Business as WOLVERINE TEX-
TILE COMPANY, and LOUIS FEUERMAN,

Plaintiffs,

vs.

J. MILLER WALKER, FRANCIS J. O'HARA,
JR., HOWARD R. HUGHES, NOAH DIET-
RICH, NED E. DEPINET, HUGHES TOOL
COMPANY, RKO PICTURES CORPORA-
TION and RKO RADIO PICTURES, INC.,

Defendants.

MOTION FOR FINAL JUDGMENT

The defendant RKO Pictures Corporation (herein called "RKO") on the attached affidavit of Roy W. McDonald, respectfully shows the Court that the purchase agreement between Howard R. Hughes (herein called "Hughes") and RKO heretofore established by the offer of Hughes dated February 7, 1954, the acceptance by RKO pursuant to authority of its Board of Directors dated February 13, 1954, communicated by RKO through its president on February 15, 1954, and approved by RKO's

stockholders on March 18, 1954, was duly and finally consummated on March 31, 1954.

The defendant RKO respectfully moves that this Court enter its Final Judgment dismissing this cause with prejudice, pursuant to the terms of the Interlocutory Order entered herein on March 30, 1954, such Final Judgment to retain jurisdiction of this [546] cause solely for the purpose of hearing and determining the motion of RKO to determine and settle all costs, if any, and fees, if any, to which the plaintiff or plaintiffs in any derivative or representative action purportedly brought on behalf of RKO or its stockholders, wherever instituted or pending, may be entitled, and the cross-motion of plaintiffs herein for award of costs and fees.

Dated this 1st day of April, 1954.

HAM & HAM,

Las Vegas, Nevada;

DONOVAN, LEISURE,

NEWTON & IRVINE,

2 Wall Street,

New York 5, New York;

/s/ ROY W. McDONALD,

2 Wall Street, New York 5, New York; Attorneys
for RKO Pictures Corporation.

[Endorsed]: Filed April 1, 1954, Nevada Dis-
trict Court [547]

EXHIBIT No. 6

[Attached to Affidavit of George Benedict, Jr.]

Case No. 59422

Dept. No. 1

In the Eighth Judicial District Court of the State of
Nevada in and for the County of Clark

**ELI B. CASTLEMAN and MARION V. CASTLE-
MAN, Doing Business as WOLVERINE TEX-
TILE COMPANY, and LOUIS FEUERMAN,**

Plaintiffs,

vs.

**J. MILLER WALKER, FRANCIS J. O'HARA,
JR., HOWARD R. HUGHES, NOAH DIET-
RICH, NED E. DEPINET, HUGHES TOOL
COMPANY, RKO PICTURES CORPORA-
TION and RKO RADIO PICTURES, INC.,**

Defendants.

FINAL JUDGMENT OF DISMISSAL

On this 1st day of April, 1954, came on to be heard the motion of RKO Pictures Corporation (herein called "RKO") for the entry of a Final Order pursuant to the provisions of the Interlocutory Order heretofore entered in this cause upon the 30th day of March, 1954;

And it appearing from the affidavit of Roy W. McDonald, filed herein on this date, that on the 31st day of March, 1954, in the City of Wilmington, State of Delaware, the defendant Howard R.

Hughes (herein called "Hughes") paid to RKO \$23,489,478.00 and that on such date and at such place RKO transferred and assigned to Hughes all the assets of RKO; and that thereby the purchase agreement between Hughes and RKO referred to in the Interlocutory Order of March 30, 1954, has been fully and finally [552] consummated;

It is accordingly Ordered, Adjudged and Decreed, that the above styled and numbered cause be and the same hereby is finally dismissed with prejudice as to all defendants;

And it appearing to the Court that the dismissal herein adjudged finally determines all matters and issues as between the plaintiffs and the defendants upon the merits of this litigation, and that there is no just reason for delay in entry of such final Judgment, it is directed that this judgment be forthwith entered as final.

Jurisdiction of this action is retained by the Court for the sole purpose of hearing and determining the motion of RKO to determine and allocate all costs and fees, if any, allowable to the plaintiffs in any stockholder's representative or derivative action, wherever pending; and to hear and determine the plaintiffs' cross-motion for an award of costs and fees.

Entered, this 1st day of April, 1954.

FRANK McNAMEE,
Judge.

[Endorsed]: Filed April 1, 1954, Nevada District Court. [553]

EXHIBIT No. 7

[Attached to Affidavit of George Benedict, Jr.]

Case No. 59422

Dept. No. 1

In the Eighth Judicial District Court of the State of Nevada in and for the County of Clark

ELI B. CASTLEMAN and MARION V. CASTLEMAN, Doing Business as WOLVERINE TEXTILE COMPANY, and LOUIS FEUERMAN,

Plaintiffs,
against

J. MILLER WALKER, FRANCIS J. O'HARA, JR., HOWARD R. HUGHES, NOAH DIETRICH, NED E. DEPINET, HUGHES TOOL COMPANY, RKO PICTURES CORPORATION and RKO RADIO PICTURES, INC.,

Defendants.

FINAL ORDER

On this 5th day of April, 1954, came on to be heard, pursuant to the reservation of jurisdiction in the Final Judgment in this action entered April 1, 1954, the following:

1. The Motion of RKO Pictures Corporation and RKO Radio Pictures, Inc., filed March 19, 1954, praying for an order determining what portion, if any, of the sum paid by defendant Howard

Exhibit No. 7—(Continued)

R. Hughes to defendant RKO Pictures Corporation for all the assets of such corporation shall be allocated for payment of all costs and disbursements, if any, including all counsel fees, if any, and all other lawful expenses, if any, of all plaintiffs in all stockholders' actions, derivative and/or representative, wherever now [555] pending; and determining the apportionment of such sum, if any, among all such plaintiffs to the extent any such plaintiffs shall show themselves entitled to participate in such fund; and directing that RKO Pictures Corporation and RKO Radio Pictures, Inc., upon proof of payment of the respective interests, if any, as determined by this Court on such motion, either to the party or into the registry of this Court for the account of such party, be released and discharged from any and all liability to each of the plaintiffs in each of the various stockholders actions, wherever they are now pending, in connection with said plaintiffs' costs, if any, and disbursements, if any, in said actions; and

2. The Cross-Motion of plaintiffs Eli B. Castleman, et al., dated March 2, 1954, for an order assessing upon RKO Pictures Corporation and RKO Radio Pictures, Inc., the reasonable expenses of the plaintiffs, including their attorneys' fees and accountants' fees, in such amount as the Court shall determine to be reasonable, arising out of and incurred in the prosecution of the claims and causes

Exhibit No. 7—(Continued)

of action of RKO Pictures Corporation and RKO Radio Pictures, Inc., by said plaintiffs; and

3. The Motion, filed April 2, 1954, of Vaughan & Brandlin, attorneys at law of Los Angeles, California, on behalf of Harry Rosenthal and Gertrude Rosenthal, for an allocation to such movants of a sum as costs, disbursements, counsel fees, and other lawful expenses; and

4. The informal application by letter of Mortimer A. Shapiro of Nemerov & Shapiro, attorneys at law of New York, N. Y., for an adjournment for an unstated period of a determination with respect to the rights, if any, of Nemerov & Shapiro in this matter.

The Court thereupon heard the evidence, including the exhibits offered; incorporated as a part of the record on this [556] hearing, all prior proceedings in this action, including but not limited to proceedings, evidence, and exhibits at the hearing beginning March 22, 1954, upon the motion of the defendant Howard R. Hughes for dismissal of this action with prejudice and the Findings of Fact, Conclusions of Law, Order, and Final Judgment entered after such hearing; heard the argument of counsel; and having considered the same, renders this as its final order on such motions and application.

The Court finds and concludes from such record:

1. That on March 20, 1954, the Honorable A. S. Henderson, a Judge of this Court, signed an Order

Exhibit No. 7—(Continued)

of this Court setting the above-described motion of RKO Pictures Corporation and RKO Radio Pictures, Inc., for hearing by this Court at Las Vegas, Nevada, on the 5th day of April, 1954, at 9:30 a.m. and ordering that service of a copy of such Order, together with a copy of the Motion on behalf of such corporations, and the affidavit in support thereof, on the plaintiffs and their attorneys in each of the pending stockholders' actions, derivative and/or representative, wherever pending, made by registered mail, return receipt requested, directed to the attorneys who have appeared on behalf of such plaintiffs on or before March 22, 1954, should be sufficient notice to said plaintiffs and their attorneys of the pendency of said Motion.

2. That on March 22, 1954, at the hearing on the Motion to Dismiss this action with prejudice, certain stockholders appeared in person or by counsel and participated, or were accorded full opportunity to participate, in this proceeding; that among such stockholders so appearing were Sidney Schwartz, appearing by Israel Beckhardt, Esq., and Louis Fieland, Esq., attorneys of New York, N. Y., who were admitted for the purpose of participating in such hearing; and Julius November and Eleanor November, appearing by Foley & Foley, [557] attorneys of Las Vegas, Nevada.

3. That the fund from which allowances, if any, to stockholders who are plaintiffs in derivative or representative stockholders actions, wherever pend-

Exhibit No. 7—(Continued)

ing, for their reasonable expenses, if any, including attorneys' fees, if any, to which they might prove themselves entitled, results solely from the offer of the defendant Hughes to purchase all of the assets of RKO Pictures Corporation; that no other Court has jurisdiction over the defendant Hughes in any of the stockholders' actions now pending; that insofar as such offer includes the claims asserted in stockholders' actions, and hence has the aspects of a settlement thereof, it is subject solely and exclusively to the jurisdiction of this Court; that such fund is subject only to such orders as this Court may make herein after due and lawful notice.

4. That on March 22, 1954, service of notice of the motion of RKO Pictures Corporation and RKO Radio Pictures, Inc., in the form and manner prescribed by the Order of this Court dated March 20, 1954, was duly and legally made by mailing by registered mail to each of the attorneys listed in Exhibit B to the affidavit of A. W. Ham, Jr., Esq., dated March 17, 1954, filed in support of such Motion of RKO Pictures Corporation and RKO Radio Pictures, Inc., a copy of such Order of this Court dated March 20, 1954, a copy of such Motion, and a copy of the affidavit in support thereof, with its exhibits.

5. That due proof of such service has been made before this Court.

6. That each of the plaintiffs and their counsel so duly served with notice of this hearing and each

Exhibit No. 7—(Continued)

of the attorneys so duly served, with the exception of those hereinafter specifically named and disposed of, have failed to appear and make any showing that [558] they are entitled to claim or recover any sum of money as reimbursement for expenses, including attorneys' fees, out of the fund received by RKO Pictures Corporation from the sale of its assets to Howard R. Hughes; but on the contrary, each of such plaintiffs and each of such counsel, except those hereinafter specifically named and disposed of, have defaulted on this Motion.

7. That the plaintiffs Eli B. Castleman, et al., on their motion, have established that they are entitled to recover from such fund their reasonable expenses; that a reasonable allowance to them for such expenses is as follows:

For attorneys' fees, \$125,000.00;

For accountants' fees, \$25,000.00;

For disbursements for expenses of their attorneys, \$8,000.00;

For disbursements for expenses of their accountants, \$2,000.00;

that such allowance shall cover all fees for all attorneys who have appeared in any action, wherever pending, on behalf of Eli B. Castleman, et al., the plaintiffs in this action, and all accountants or others who have rendered any services on their behalf, whether or not such attorneys or accountants have appeared in this Court.

Exhibit No. 7—(Continued)

8. That the stockholders Harry Rosenthal and Gertrude Rosenthal, and their attorneys Vaughan & Brandlin, did not confer any benefit upon RKO Pictures Corporation or RKO Radio Pictures, Inc., or contribute to any benefit to such corporations, by their activities; that they sought to intervene in an action by Eli B. Castleman, et al., pending in the District Court of the United States for the Southern District of California at Los Angeles, California; that said application for leave to intervene has not been granted; and that such stockholders and their counsel are not entitled to recover [559] any sum from either RKO Pictures Corporation or RKO Radio Pictures, Inc., by reason of such activities.
9. That no good cause has been shown for deferring a ruling upon the rights of Nemerov & Shapiro, Esqs., in this action.
10. That there has been no showing by any stockholder (other than plaintiffs herein) or any attorneys (other than attorneys for plaintiffs herein), that any such stockholder or attorney has conferred any benefit on RKO Pictures Corporation or RKO Radio Pictures, Inc., or contributed in any degree to any such benefit, by reason of the various stockholders' derivative and representative actions elsewhere instituted; that the evidence tends overwhelmingly to show that such of the other actions as were instituted after this action created needless expense to such corporations by the prosecu-

Exhibit No. 7—(Continued)

tion of actions which duplicated the causes of action here asserted, or else were actions without factual or legal merit, in jurisdictions where the plaintiffs were unable to secure jurisdiction over the defendant Hughes; that the evidence also tends overwhelmingly to show that the only action instituted prior to this action (except the actions in New York and California instituted by Eli B. Castleman, et al.) is the action by Sidney Schwartz in New York, in which the individual defendant Hughes was not served and in which there has been no joinder of issue; and there has been no showing that any stockholder, attorney, or other person is entitled to recover any amount from the sum now within the jurisdiction of this Court.

It is, accordingly, Ordered, Adjudged and Decreed:

1. That the Motion of RKO Pictures Corporation and RKO Radio Pictures, Inc., be and the same is hereby granted, and the Court hereby allocates the sum of One Hundred and Sixty Thousand (\$160,000.00) Dollars for the payment of costs and disbursements [560] in all the stockholders' actions, wherever now pending, purporting to be brought on behalf of the stockholders, or any of them, of defendant RKO Pictures Corporation, or on behalf of said defendant, against Howard R. Hughes and other individual defendants and Hughes Tool Co.; and the Court hereby determines and fixes the interests in such fund as hereinafter provided.

Exhibit No. 7—(Continued)

2. That the cross-motion of the plaintiffs Eli B. Castleman, et al., for allowance of their reasonable expenses is granted; and judgment is here rendered that Eli B. Castleman and Marion V. Castleman, doing business as Wolverine Textile Company, and Louis Feuerman have and recover of and from RKO Pictures Corporation and RKO Radio Pictures, Inc., jointly and severally, the sum of One Hundred and Sixty Thousand (\$160,000.00) Dollars as reimbursement of such plaintiffs for all expenses for attorneys and accountants and other disbursements incident to the prosecution of this and all other actions in which Eli B. Castleman, et al., or any of them, are plaintiffs as stockholders of RKO Pictures Corporation.
3. That the motion on behalf of Harry Rosenthal and Gertrude Rosenthal, and their attorneys Vaughan & Brandlin, for an allowance for costs, disbursements, and expenses, be and the same is hereby denied.
4. That the informal application of Mortimer A. Shapiro, and the firm of Nemerov & Shapiro, that the action of this Court with respect to the rights, if any, of such firm in this matter be and the same is hereby denied.
5. That RKO Pictures Corporation and RKO Radio Pictures, Inc., be, and they hereby are, released and discharged from any and all claims by any plaintiff or other stockholder of RKO Pictures

Exhibit No. 7—(Continued)

Corporation (other than the plaintiffs herein as hereinabove [561] adjudged and decreed) in any action purported to be brought on behalf of RKO Pictures Corporation or RKO Radio Pictures, Inc., or both, wherever instituted or pending, for attorneys' fees, accountants' fees, or other expenses, asserted to have been incurred in any such action or actions.

Entered this 5th day of April, 1954.

FRANK McNAMEE,
Judge.

[Endorsed]: Filed April 15, 1954, Nevada District Court. [562]

[Title of District Court and Cause.]

AFFIDAVIT OF BERNARD REICH IN
OPPOSITION TO MOTION TO DISMISS

State of California,
County of Los Angeles—ss.

Bernard Reich being first duly sworn, deposes and says:

1. I am the attorney for the plaintiffs and the proposed interveners in the above matter, and make this affidavit in opposition to the motion to dismiss.

2. The grounds of my opposition are as follows:

(a) The Nevada proceedings are not res judicata

and do not bar the further prosecution of this lawsuit;

(b) Before there can be a dismissal plaintiffs and the proposed interveners are entitled to a separate trial of the issues raised with respect to the Nevada action, that is, whether the action was collusive, or at [636] least whether it was truly adversary.

(c) Before there can be a separate trial as aforesaid plaintiffs and proposed interveners are entitled to discovery, including the taking of the deposition of Mr. Hughes and the appointment of a Special Master, all as previously and timely moved.

3. First with respect to the ground of opposition that the Nevada proceedings are not res judicata:

(a) The moving papers on their face show that the only motion leading to the final judgment of which the stockholders had notice was a motion to dismiss not on the merits but on the ground of mootness, in that Mr. Hughes was about to purchase the assets of RKO, including the actions against him. They show that the action in Nevada was not in fact or in law dismissed on the ground of which the stockholders had notice, but that the Nevada court at the instance of the defendants converted the motion so as to approve the sale of the assets as a "compromise" of the lawsuits and dismissed on the merits; that the stockholders were not given notice of the "compromise" in accordance with Nevada

Rule 23(c) which corresponds to Rule 23(c) of the Federal Rules of Civil Procedure. Without analyzing the proceedings in Nevada, the sense of it is that the defendants first contended that Mr. Hughes' offer was an offer to "purchase" which rendered the stockholder suits moot. Once, however, they obtained in Delaware an adjudication against vacating the sale, the defendants sought to obtain the benefits of Rule 23(c). The stockholders never had any notice that the Nevada court would hear evidence [637] on whether or not the offer of Mr. Hughes was a fair "compromise" of the lawsuits against Mr. Hughes. In this connection and in this California action Mr. Hughes' counsel, Mr. Raymond Cook of Texas, denied that his client's offer was in effect a compromise of the various suits. In order, however, to give to the Nevada decree respectability and lay foundation for the instant motion to dismiss, defendants introduced in Nevada, without prior notice to the stockholders or to the proposed interveners, the issue of "compromise" under Rule 23(c).

(b) Prior to the hearings which led to the Nevada judgment the proposed interveners here, the Novembers, had sought to intervene in the Nevada action and were refused. They appealed.

In view of the refusal, the judgment in Nevada can be no more res judicata as to the Novembers than to any other stockholder who did not appear in the Nevada action.

Having been refused intervention in the Nevada action the Novembers' intervention in this action may not be opposed by reference to the Nevada judgment.

(c) Any finding by the Nevada court that it finds no collusion or the lack of a fair adversary proceeding begs the question and is not binding on this Court. The principle of res judicata is of course subject to the challenge made in this Court that the judgment in Nevada was obtained by collusion, or that there was not in Nevada a truly adversary proceeding.

4. With respect to the issue of collusion and/or whether or not there was a truly adversary proceeding in Nevada: [638]

(a) I incorporate by reference all of my affidavits previously filed in this action;

(b) I affirm under oath herewith the oral statements which I made to the Court in each and every hearing had in this action;

(c) I renew each and every one of my motions, including the motion (1) for the appointment of a Special Master, (2) to set aside on the grounds of fraud that part of the order of January 12, 1954, which did not vacate the quashing of the service on Mr. Hughes, and (3) for leave to take the deposition of Mr. Hughes;

(d) I respectfully call the Court's attention to this Court's rulings and statements on a hearing

on December 14, 1953, referring to the first part of the hearing, as follows:

(Page 3, Lines 18 to 25) :

"The Court: Mr. Reich, I have studied the affidavits and have given the matter considerable thought and have come to a more or less of a conclusion in the matter and that is that I am going to take the matter off calendar and hold it in abeyance until there has been a trial in Nevada.

"I am not going to take any steps or do anything that would interfere with that court's trial of the action. I don't want to embarrass that court."

(Page 7, Line 17, to Page 8, Line 1) ;

"And I have heard so much about this case and there has been so much smoke raised is one reason why I have come to the conclusion that I have. There is one matter pending in New York on appeal. It is the same kind of [639] an investigation. And there is an action pending over there in Nevada that I understand is set for trial in the first part of January. Because of that I am not going to take any steps until that case is disposed of.

"I have read some of the cases where they have authorized and approved such proceedings after judgment."

(Page 9, Lines 4 to 7) :

"The Court: I will give you an opportunity to reply and I am not questioning your sincerity of purpose at all, but in my judgment this matter

should not be heard until after the case in Nevada has been disposed of."

Now referring to the second part of the hearing in a separate transcript:

(Page 5, Line 23, to Page 6, Line 8) :

"The Court: Counsel, I have been trying to tell you that I am willing to take the responsibility in the exercise of my discretion to continue this motion until after that case is disposed of. After that case is disposed of if you claim it is collusive—a collusive judgment, why, then, I think I would give more serious consideration to your application at that time.

"Mr. Reich: Very well, your Honor, I accept that ruling.

"The Court: I am not quarreling with you, counsel. I am just quarreling with the timing. I disagree with you on the timing." [640]

(Page 7, Lines 4 to 8) :

"The Court: I am not going to appoint a master at this time.

"To appoint a master at this time in effect questions the integrity of that court and those proceedings and I am not going to do it at this time."

(Page 26, Lines 6 to 9) :

"The Court: I want it. And then it seems to me your next move if you claim there is collusion

here, is to claim there is extrinsic fraud in granting the order and attacking the order."

(Page 27, Lines 5 to 19) :

"The Court: I am going to take the motion off calendar until after the Nevada case is disposed of.

"I am not claiming there is not merit in your argument. There may be. It may be a matter for the FBI to investigate. There may be such a fraud here as you have indicated that will require a broader investigation than a master can possibly make. I don't know. And I am not passing upon it. I am not passing upon the merits, but I am just saying that I owe that courtesy to the Nevada court where they have this case set for trial and not to take any steps that would look like a reflection upon that court at this time.

"Now, as I understand your position you do not claim that any fraud was perpetrated by the court itself but you are claiming that counsel by collusion has committed fraud. That is the sum and substance of your argument." [641]

(e) This Court has therefore taken the consistent position of waiting and seeing what happens in Nevada, and passing on no motions designed to obtain the evidence in support of the charges made in this action. This Court has stated that it was questioning my timing and that it would be time enough after the termination of the Nevada proceedings to go into the issues of collusion, conspiracy

and fraud. The time apparently is now and I and the proposed interveners so move.

5. If I am permitted to take the deposition of Mr. Hughes, and if a Special Master is appointed, I offer to prove the following:

(a) At the time this action was filed Mr. Hughes was a resident of the State of California.

(b) Mr. Hughes removed his residence to Las Vegas, Nevada, as part and parcel of a scheme and plan to deprive this Court of jurisdiction and to confer jurisdiction on the State of Nevada.

(c) As part of this scheme and plan the RKO defendants and the individual defendants, who were not residents of Nevada, nevertheless submitted to that jurisdiction.

(d) At the time when the defendants submitted to the jurisdiction of Nevada there was and there is no security law such as is applicable in the State of California, and which is most favorable to defendants in a minority stockholder action.

(e) The plan and scheme to transfer jurisdiction to the Nevada court included the dropping of an application in New York for the appointment of a receiver where it was misrepresented that there was no [642] consideration for the withdrawal. It is true, however, that I have no evidence of any monetary consideration; but it is equally true that there was "legal" consideration, in that the agreement was to try all issues in the Nevada court

where, however, there was to be no truly adversary proceeding and where in fact the proceedings were not truly adversary.

(f) As part of the plan and scheme defendants took some 18 depositions, 17 of which ran only to some 1,100 or 1,300 pages. These depositions were not truly adversary and were so much "window dressing."

(g) As part of the plan and scheme the New York action was dropped and the Nevada action was begun, both without the knowledge or consent of your deponent.

(h) As part of the plan and scheme this action was dismissed without the knowledge or consent of your deponent.

(i) As part of the plan and scheme the New York attorneys for the plaintiffs opposed in this action the vacation of the order of dismissal which this Court stated was unfairly presented to it.

(j) As part of the plan and scheme the New York attorneys for the plaintiffs sought to depose your deponent, prevent him from fulfilling his obligations to the stockholders and to this Court, and tried to obtain control of this action in order to "kill it."

(k) As part of the plan and scheme the defendants [643] and plaintiffs' New York counsel attempted to lure your deponent into Las Vegas so as to lay the ground work for a claim of res judicata, and when this failed, the New York attorneys

for the plaintiffs, by false affidavits, sought to compromise and prejudice your deponent before this Court and the Nevada court.

(1) On a self-serving motion by and on evidence of the defendants alone, and again without a truly adversary proceeding, the Las Vegas court found that there was no collusion in the Nevada action.

(m) The Nevada court permitted no intervention, except with respect to one intervenor and in this instance the court imposed impossible terms which caused the intervenor to withdraw.

(n) Mr. Hughes never testified in person before the Nevada court. In fact the Nevada court founded its judgment primarily on the "suspect" depositions.

(o) As part of the plan and scheme the defendants and plaintiffs' New York counsel attempted to lure your deponent to Nevada on the issue of counsel fees. Failing in this, the defendants paid the fees not to plaintiffs' New York counsel but to the plaintiffs, knowing full well that there was a dispute between us and that the plaintiffs had no intention of meeting their obligations to me.

6. This action was commenced against, among others, RKO Pictures Corporation, the parent company, and RKO Radio Pictures, Inc., the local operating company. The parent company refused to accept service in this jurisdiction on the ground that it was not doing business here. The same company, however, [644] submitted to the juris-

diction in Nevada. Notwithstanding I know from my experience with the parent company in at least a half dozen anti-trust actions, and from other information, that the parent company does do business in this state sufficient to be amenable to process, I did not press the point for three reasons: (a) There were and are other and more important issues, (b) it was Mr. Hughes' control of the local operating company which was all-important, and (c) this Court and the defendants had urged me not to upset the status quo until the Nevada action was terminated.

To any argument that the parent company is a proper party defendant I say that this defendant has been joined in the action and that no motion to dismiss lies on the ground that a co-defendant has been named but not served. If however this be important to the motion to dismiss I respectfully request a continuance of the motion in order for me to effect service on the parent company.

7. The Nevada court found that it was the only court having jurisdiction over Mr. Hughes. Such finding obviously is not binding on this Court. There has been no final determination here that Mr. Hughes is not subject to the jurisdiction of this Court. He was served with process. He made a motion to quash service. Plaintiffs, for the reasons already given to this Court by affidavit, defaulted. I have moved to set aside this default on the ground of mistake and fraud. I have charged that Mr. Hughes' removal to Las Vegas, Nevada, and the

default of the plaintiffs were part and parcel of the plan and scheme to deprive this Court of jurisdiction of Mr. Hughes and of this lawsuit. I have repeatedly requested the benefits of the discovery procedures, including the deposition of Mr. Hughes and the appointment of a special master, not [645] only on the issue of collusion but on the issue of Mr. Hughes' residence and the circumstances surrounding plaintiffs' default on the motion to quash.

So far as I know there has been no final or contested order regarding the issue of this Court's jurisdiction of Mr. Hughes. Even if there is, and even if such an order is appealable, the motion to dismiss cannot be predicated on that ground, since I have the right to effect service on Mr. Hughes. The fact is that Mr. Hughes does come into this state in the dead of night and with strong safeguards; but if it be vital to this proceeding, I would undertake to effect service on him, and for that purpose I would respectfully request a continuance of the motion to dismiss.

8. With respect to certain allegations set forth in the affidavit of Roy W. McDonald in support of motion to dismiss with prejudice, and using his paragraph numbers, I would state the following:

"3." It is true that the complaint in the Nevada action and the amended complaint subsequently filed herein embraced the identical causes of action set forth in this action. The essential facts however are as follows: The complaint in the California

action was filed first. In the main it followed the complaint filed in New York by Mr. Kipnis. Thereafter the California complaint was substantially revised by me. At the time the Novembers sought to intervene in Nevada, Mr. Kipnis' complaint in that court was almost identical with the complaint which I first filed here in California. Just minutes before the court in Nevada denied the November intervention, Messrs. Kipnis and Mittelman filed an amended complaint, so that the court then held [646] that the Novembers' proposed complaint in intervention (which was based on my complaint here in California) was identical, or, at least, raised the very same issues as did Mr. Kipnis' amended complaint just previously filed in Nevada.

"4." I accept Mr. McDonald's word that some 21 witnesses were examined orally by plaintiffs in the Nevada action. Of these at least 18 were by deposition. I know too that Messrs. Kipnis and Mittelman have represented to this Court that 17 of these depositions took a total of some 1,100 or 1,300 pages. Again I will not analyze in detail the proceedings in Nevada, but I think it appropriate to state here what the court in Nevada found as it related to these witnesses. In the first place the findings made March 30, 1954, page 24, refer to "20 parties and witnesses whose testimony runs to more than 2,500 (?) pages." This Court may remember that in 1953 I called its attention to the admission by Mr. Kipnis that the 17 depositions taken to that date consisted of only 1,100 or 1,300

pages. Apparently 3 or 4 more depositions or witnesses doubled the amount of pages. In any event I am prepared to prove that these depositions for the most part were a "whitewash" of Mr. Hughes. If nowhere else it is borne out by the Findings made in Nevada. On page 7 of those Findings the court states "that the charges hereafter stated in subparagraphs of this Finding have been made in various of the stockholders' actions, including this action, and have in each case been put in issue by denials by those defendants charged who were before the court in the particular action involved; further [647] that the depositions, affidavits, exhibits and testimony in evidence at this hearing do not tend to support them but on the contrary tend to negative them." (Underlining mine.)

"5." I am willing again to take the word of Mr. McDonald with reference to Mr. Hughes' offer to "purchase" all of the assets of RKO, but again I point to the fact that this on its face was not an offer to "compromise" on the part of Mr. Hughes but an offer to "purchase" the assets.

"6." I do not doubt that the motion to dismiss in Nevada was made and the notices served as Mr. McDonald states. I refer the Court respectfully, however, to the exhibits mentioned by Mr. McDonald with my observation that nowhere in the moving papers or in the notices were the stockholders or parties given notice that the court was going to consider evidence on whether or not Mr. Hughes' offer to purchase was to be considered an

offer to compromise, or that it would take evidence on the fairness of Mr. Hughes' offer as a "compromise" of all of the stockholder actions against him. In this connection I refer briefly to the Nevada court's Findings wherein in paragraph 1 the nature of the motion is given as one to dismiss on the ground of mootness and the fact that consummation of the "sale" would vest in Mr. Hughes all of the claims against him. The Nevada court then states in paragraph 3 that pursuant to Rule 23(c) of the Nevada Rules of Civil Procedure it has examined into the fairness of the offer since the offer "would result in a compromise and termination of this and all other derivative and representative actions." [648] The court, in paragraph 23 of its Findings, states that Mr. Hughes did not allocate any part of the stated consideration of some twenty-three and a half million dollars to any specific assets of the corporation. In paragraph 24 the court states, however, that the board of directors did analyze the possible contingent asset of the stockholders' actions, but that it did not allocate any portion to any asset and the court goes on to say that the method employed by the directors was a proper one, and that it is not necessary for it to allocate the value of the derivative stockholders' actions. The court goes on to find no liability on the part of Mr. Hughes or the other defendants; nevertheless in a separate order it awards counsel fees and costs in a total sum of \$160,000.

On the other hand the Delaware court in its

decision dated March 26, 1954, stated that "the board of directors apparently considered, on the basis of a recommendation of RKO's general counsel (and I take that to be Mr. McDonald or his law firm), that \$2,000,000 would not be an unreasonable value to place on these (stockholders') waste actions against Hughes and other directors." So far as I know the stockholders, and particularly the Novembers, did not know that on the simple motion to dismiss on the ground of mootness, that (a) Mr. Hughes or his attorneys wanted Mr. Hughes' offer to purchase to be considered or to be "viewed" as an offer of compromise, (b) they were expected to adduce proof as to the fairness of the compromise, or (c) the board of directors had allocated \$2,000,000 as a compromise of the several actions. With respect [649] to the last point, even the Nevada court apparently did not know what allocation had been made for the lawsuits.

"7." In this paragraph of his affidavit Mr. McDonald refers to the hearing on March 22, 1954, and states that "among the stockholders present in person or by counsel were Julius and Eleanor November" and that their Nevada counsel was invited to participate and to interrogate any witnesses.

The Court's attention is respectfully referred to the order of the Nevada court dated March 30, 1954, being Exhibit 4 to the Affidavit of George Benedict, Jr., sworn to May 24, 1954, in which, and referring to the hearing on March 22, 1954, the Nevada court states on page 2 that notice of the

hearing of the motion to dismiss was given to all "stockholders," and that "no stockholder or party has appeared to oppose the dismissal."

The actual facts concerning the "presence" of the Novembers' Nevada counsel at the hearing on March 22nd are as follows: Since the Novembers had been refused intervention, the defendants (as the Nevada court's order indicates) did not deem it necessary to serve the Novembers' counsel with the notice of motion to dismiss the Nevada action. However, as the Nevada court's order indicates, they did receive the notice of hearing and the papers in support of the motion to dismiss as "stockholders." Their Nevada counsel was not invited to appear at all. According to a conversation I had with Mr. Tom Foley, the Novembers' Las Vegas counsel, he was present as an observer in the courtroom on [650] what he supposed to be a motion to dismiss on the ground of mootness. He did not put in any legal appearance, nor do the exhibits which have been made a part of this record by the defendants state to the contrary. It is true that he was invited to cross-examine, of which privilege he informed me he did not avail himself. Not having received any formal notice of the motion to dismiss, and certainly no notice that the hearing would essentially be on the issue of whether the offer of Mr. Hughes' was a fair "compromise" or not, or that the court was entertaining any motion to approve a compromise pursuant to the provisions of Rule 23(c), neither he nor his clients therefore were

in a position to adduce their own evidence on the issue actually being tried and which we find forms the bulk of the Nevada court's Findings.

I submit that Mr. Foley's presence and the offer made to him of the privilege of cross-examination is not sufficient to bind the Novembers under the principle of res-judicata. Assuming, however, contrary to the facts, that Mr. Foley was served with the motion papers to dismiss on the ground of mootness and that he made a legal appearance on March 22, 1954, there was still no compliance with Rule 23(c) which provides that in a class action notice of the proposed "dismissal or compromise" shall be given to all members of the class. The only notice that the members of the class had was that on a certain date there would be a motion to dismiss on the ground of mootness.

"11." Again I have no reason to doubt Mr. McDonald's statements in this paragraph, including the [651] fact that the Nevada court reserved jurisdiction for the sole purpose of determining and allocating costs and fees to all attorneys in all actions wherever pending. The fact is that I received a notice of motion inviting me to come to Las Vegas and make application for fees. I did not do so because the Nevada court had no jurisdiction over me or over the services that I rendered, and I wanted my fees and costs fixed by this Court. I considered the motion in Nevada as another chain in the acts of collusion to deprive this Court of jurisdiction and to transfer jurisdiction to Nevada.

I felt that the Nevada court had permitted itself to be used to lure me into Nevada so as to give some respectability to the defendants' (and plaintiffs' New York counsel's) claim of res judicata.

"12." Again I do not question the facts as alleged by Mr. McDonald in this paragraph, but I say again that Schiff and Sack were attacking a sale and not a compromise, and that the judgment in Delaware on its face is not res judicata of the issues before this Court. In fact the motion to dismiss is not based on the Delaware decree. Incidentally Mr. Hughes did not testify in that action personally or as far as I can see even by deposition.

"14." This paragraph alludes to the question of counsel fees and costs. Again it is true that I received notice of a motion by the defendants to hold a hearing on this issue. I have given my reasons for not appearing. I would add here the further reason that I would not waive my allegations of collusion by making an appearance in Nevada in support of a claim for counsel [652] fees. I do not want counsel fees for anything that occurred in Nevada. Moreover, the court in Nevada did not award me counsel fees for the simple reason that the Castlemans did not apply for counsel fees for me. On March 8, 1954, Mr. Kipnis wrote me in part as follows:

"Please be advised that there has been circulated by RKO Pictures Corporation a proxy statement, a notice of special meeting of stockholders, a letter

from the president, all dated February 28, 1954, and a notice of court hearing.

"In connection with the notice of court hearing, we have served a cross-motion, in substance, for an order to reimburse my clients for counsel and accountants' fees and expenses.

"Reimbursement for said counsel and accountants' fees encompasses wholly and solely the services rendered by Mr. Mittelman and myself and others here in New York and by David Zenoff, Esq., of the Nevada Bar.

"There has not been nor will there be any claim made by my clients, or by us, for reimbursement of counsel and accountants' fees or expenses for anyone other than the persons above mentioned and specifically excludes any claim for services allegedly rendered by you. If you believe that your alleged services are compensable, we suggest that you assert so on March 22, 1954, at 10 a.m. before Judge McNamee of the Eighth Judicial District Court of the State of Nevada, at Las Vegas, Nevada, specifying the scope, nature, extent and value of the same, if any." [653]

Mr. McDonald and other counsel for the defendants were not unaware of my dispute with Messrs. Kipnis and Mittelman and never for a moment were misled that payment to the Castlemans of counsel fees and costs was payment to me of any part thereof. The reason the money was paid to the Castlemans rather than to the attorneys is obvious.

Defendants intended to bind me by paying my clients who they knew would not pay me. Since, however, I rendered the services in effect to RKO in this action I am entitled to be paid by it in this action, particularly when the payment to the Castlemans in the Nevada action did not include my services, a fact well known to the defendants and counsel.

9. I want to make it clear that I do not oppose the motion to dismiss "in fact" as distinguished from "in law" in behalf of the plaintiffs. In my opinion plaintiffs have been used by Messrs. Kipnis and Mittelman so that they did not and do not fairly represent all the members of the class of stockholders they purport to represent. The fact is that plaintiffs and Messrs. Kipnis and Mittelman do not oppose the dismissal as they did not oppose the dismissal of June 26, 1953, long before Mr. Hughes made any offer which benefited the stockholders.

I oppose defendant's motion to dismiss in behalf of all of the stockholders, including the proposed interveners Eleanor and Julius November.

I oppose the dismissal of this action as an officer of this Court and on the authority in law which I have set forth in the many memoranda which I have filed.

I designate myself as attorney for the plaintiffs only because I wish to uphold the Local Rules of this Court and because I have not been substituted

in accordance with those Rules. So long as I am not substituted, and so long as my name [654] appears of record as attorney for the plaintiffs, I will not permit my clients to do anything by omission or commission which does not contribute to the fair and orderly administration of justice and which is not consistent with the best interests of the whole class which they purport to represent.

/s/ BERNARD REICH.

Subscribed and sworn to before me this 28th day of June, 1954.

[Seal] /s/ HELEN SPARKMAN,
Notary Public in and for the County of Los Angeles, State of California.

[Endorsed]: Filed June 28, 1954. [655]

[Title of District Court and Cause.]

MOTION FOR COUNSEL FEES AND COSTS FROM THE PLAINTIFFS

Comes Now the plaintiffs' attorney, Bernard Reich, and moves this Honorable Court for an order determining the amount of counsel fees and costs for plaintiffs' attorney, Bernard Reich, for judgment in that amount as against the said plaintiffs, and for all proper relief.

Dated: June 28, 1954.

/s/ BERNARD REICH,
Attorney for Plaintiffs. [684]

[Title of District Court and Cause.]

AFFIDAVIT OF BERNARD REICH IN SUPPORT OF MOTION FOR FEES AND COSTS AS AGAINST PLAINTIFFS

State of California,
County of Los Angeles—ss.

Bernard Reich being first duly sworn, deposes and says:

1. I am attorney of record for the plaintiffs and make this affidavit in support of my motion for fees and costs as against the plaintiffs.

2. On Saturday, December 13, 1952, I received at my home, a telephone call from New York attorneys Leo B. Mittelman and Louis Kipnis. They wanted me to file a minority stockholder action in the state court. They said they would do all the work and were prepared to pay me 10% of the attorneys' fees for acting as their California correspondent. I told them that I wanted to file actions of this kind in the federal court, that I [685] was not the stooge type, and that I wanted to be fully responsible for all papers filed. They said they did not want a stooge, and that they would leave it to our mutual friend Bernard D. Fischman, an attorney, of New York City, to fix my fee in addition to the 10%.

3. By letter of May 18, 1953, Mr. Mittelman confirmed the fee arrangement as follows:

“Re: Terms of Substitution:

"Our agreement was that in consideration of your acting as our local counsel in the California action, you would receive not less than 10% of all the fees we might be awarded in our several actions. In the event of services performed by you in excess of those anticipated, it was agreed that Bernie Fischman would determine whether and to what extent you were to receive any additional sum.

"In our letter of April 16, 1953, we stated 'Our obligation will survive the California action.' By that we meant that regardless of the disposition of the California action, we intended to and would honor our agreement with you. In short, please accept this letter as meaning that by stepping out of the action your rights with respect to our arrangements regarding fees and costs will not be prejudiced."

4. To go back: On Monday, December 15, 1952, I received in the mail the form of complaint filed by Mr. Kipnis in the New York state court. By 3 o'clock of the same day, I had revised the complaint to conform with the jurisdictional requirements of the federal court and filed it.

5. Later, and in March, 1953, I prepared and filed an amended complaint. [686]

6. In view of the representations made by Mr. Kipnis in open Court that he prepared all the pleadings and that all I had to do was to file them, I reproduce hereinafter portions of the correspondence between these New York attorneys for the plaintiffs and myself:

On December 24, 1952, I wrote Mr. Mittelman in part as follows:

"You simply have no idea what Hughes has done to RKO."

"The fee you mentioned on the telephone would indicate only damages in the sum of \$1,000,000. Hold your hat, but I think Hughes has cost RKO in the neighborhood of \$10,000,000."

[I was wrong; the figure was nearer \$38,000,000 than \$10,000,000.]

"Remember also that I told you that I did not file the action here as a flunky or even for a \$25,000 fee. I am prepared to amend the complaint."

On January 5, 1953, I wrote Mr. Mittelman in part as follows:

"In any event don't you think we ought to amend the complaint even while you are talking settlement?"

On January 21, 1953, I wrote Messrs. Mittelman and Kipnis in part as follows:

"Today's Hollywood Reporter reports that the motion for appointment of a receiver will be withdrawn on Monday * * *." [687]

"Almost every day I receive inquiries from the press and from others here in Los Angeles as to whether I am going to amend the complaint."

By letter of January 23, 1953, Mr. Mittelman

characterized his releases to the press as "double talk" and then stated:

"In connection with your inquiry about amending the complaint, it is our impression that in the classification of breaches of fiduciary obligation a wide area has been covered under which a broad examination could be held. However, we are receptive to any thoughts you might have relative to amending the complaint and we would be pleased to have your thoughts as to the specific items sought to be embraced in the amended complaint." [Later, as we shall see, he changed his mind.]

On February 27, 1953, I advised Mr. Kipnis that I was prepared to amend the complaint in the particulars set forth in five or six pages which constituted my letter.

On February 28, 1953, I sent Mr. Kipnis a copy of the amended complaint which I subsequently filed.

On March 2, 1953, Mr. Kipnis wrote me in part:

"I believe that your amendment to the complaint will make it so broad that no 'Johnny-come-lately' will be able to claim credit for any aspect of the pleading."

"Under the circumstances, I feel that the filing of the amended complaint was a necessary step and an advisable one." [688]

It will be noted that originally Messrs. Kipnis and Mittelman felt that an amended complaint was

not necessary. Not only did they change their mind, but in Nevada and in the face of petitions for intervention, they amended their complaint to conform to the categories which I alleged in the amended complaint.

7. I have in previous affidavits set forth what occurred thereafter as between plaintiffs' New York counsel and myself. I incorporate herein all of those affidavits with the same force and effect as if I were to set them forth ad hoc herein.

8. I incorporate by reference in the same way my affidavit filed simultaneously herewith in opposition to the motion to dismiss.

9. For the convenience of the Court, I would summarize all of my affidavits as follows:

(a) Almost from the very beginning plaintiffs' New York attorneys have not acted in good faith so far certainly as I was concerned. They failed to take me into their confidence at several points, to wit, they kept from me as long as possible their meeting with Hughes' representatives at the Cochran Ranch in Indio; they commenced the action in Las Vegas, Nevada, without my prior knowledge or consent; they dropped the receivership proceedings in New York not only without my prior knowledge or consent but after in effect denying that they were going to do so; and they prevented me, or at least tried to prevent me, from doing my duty to the Court and to the stockholders.

(b) Plaintiffs' New York attorneys violated the

agreement made with me that the California [689] action would be prosecuted. In this connection they withdrew over their own signature my notice of deposition of Mr. Hughes; they caused plaintiffs to default on Mr. Hughes' motion to quash the service on him; they tied my hands with respect to the defense of that motion and the motion for security; they planned and schemed with the defendants to have this action dismissed without my knowledge or consent, and then kept the fact from me.

(c) Plaintiffs' New York attorneys violated their duty to this Court by (1) resisting the motion to vacate the order of dismissal which this Court stated was "unfairly presented to it," (2) trying to wrest control of this Court from the local attorney of record for the purpose of having it dismissed and by filing false and contumacious affidavits against him.

(d) Plaintiffs' New York counsel violated their duty to the stockholders by consenting to procedures dictated by the defendants, including the dropping of the New York action, the bringing of the Las Vegas, Nevada, action, and by otherwise not proceeding in a truly adversary action. In this connection it should be noted that plaintiffs' New York attorneys took some 18 depositions and that the first 17 of them consisted of no more than 11 or 13 hundred pages; that 3 or 4 more witnesses gave testimony which brought the grand total of pages to about 2,500.

(e) Plaintiffs' New York attorneys were prepared to accept a \$1,000,000 settlement and it was not to their credit that as elsewhere set forth the settlement amounts to between \$2,000,000 and [690] \$12,000,000.

10. With respect to the issue of my wrongful discharge and the related issue as to my loyalty to plaintiffs' New York attorneys, the facts are briefly these:

Prior to May 7, 1953, I was engaged in prosecuting this lawsuit and in resisting motions made by the defendants. Plaintiffs' New York attorneys did things and were engaged in activities which did not have my approval. I asked to be relieved. On May 7, 1953, Mr. Mittelman wrote to me that he was acceding to my desire "to be substituted out of the case." He wrote:

"Whatever authority we have heretofore granted to you is hereby revoked and cancelled."

On May 11, 1953, I wrote Mr. Mittelman as follows:

"Dear Leo:

"I have your letter of May 7, 1953.

"In my letter of May 5th, to which you allege yours is a response, I wrote:

"‘‘As I told Slack’s partner, Cook, I do not want to be devoured piecemeal. I told him that if he would not press for security I would give consideration to consenting to the motion re Hughes. Neither

he nor you have given me any answer at all on this question of security.

"I therefore intend, if I am still in the case, to oppose the motion for security on June 8th. To do this successfully I must have the deposition of Howard Hughes for some reasonable time prior to June 8th."

"In my letter of April 27th I wrote:

"My question to you still is what is to [691] happen to both motions on June 8th? Also, whether I am free to oppose the motion for security on June 8th with all the proper means available to me.'

"How your letter of May 7th constitutes an answer to my letters is beyond me.

"Is it that you do not wish to oppose either motion?

"I gather from your letters, every one of them, that you do not recall everything you said to me in December when Lou was in California, or what was said to me in my New York hotel room in the presence of Bernie.

"In any event whether it be before Judge Greenberg, Chief Judge Yankwich or Judge Harrison, in New York, in California or in Nevada, in this action or any other action or proceeding, I intend to fulfill my sworn duty to the courts and to the RKO stockholders.

"To go back to just one thing: Soon after the Cochran Ranch conference, Lou was intimating that

the receivership would not be pressed. Then, on January 26, 1953, Lou apparently told Judge Greenberg that since the RKO board had been reconstituted (that is, resumption of Hughes' control), Lou was withdrawing the receivership application.

"Like the matter of the Cochran Ranch, you did not tell me of the withdrawal of the application until after it was done.

"I told you then that this was wrong and made no sense.

"Now Fortune (page 123) states: [692]

"The ironic aspect of this whole affair is that the syndicate by its very eagerness to make a fast buck, might have been a distinct improvement over the sort of management RKO has had in the past five years.'

"As to substitution, you say nothing in your letter of my fees or the costs which I have expended. The form of substitution which I sent you in more peaceful days, and which involved a different situation entirely is of course not applicable here.

"Please therefore advise the terms of substitution which you wish me to consider.

"In the meantime, and so that there will be no prejudice to the clients, I am noticing Hughes' deposition which will be absolutely necessary if you wish to oppose the motion for security on June 8th.

"I am noticing the deposition for May 28, 1953. This will give you sufficient time to effectuate a

substitution and withdraw the notice if you still wish to do so. In this way the clients will be protected, in case they want to oppose the motions on June 8th, and will not be prejudiced by me if you do not want to oppose them.

"Incidentally I assume by your postscript that you acknowledge my right to file for other stockholders—although you misunderstood my reference to other facts.

"Sincerely yours,

"*/s/ BERNARD REICH.*

"cc: Bernard D. Fischman, Esq."

After a further exchange of letters, Mr. Kipnis wrote me on May 18, 1953, confirming our fee arrangements as above [693] mentioned. In the same letter he wrote me as follows:

"Re: Motion for Security:

"It was not our intention to let the 'security' motion go by default. When we write asking you to do nothing, it meant just that—we did not want you to do anything affirmative but that we would.

"As Step One, we are stipulating to a simultaneous adjournment of the security motion plus the notice of taking of deposition of Hughes, all subject to Court approval and without prejudice.

"Therefore, if the stipulation adjourning the 'security' motion and the deposition come in before

you are formally substituted, won't you please sign it. If it comes in after you are substituted, then, of course, we will have Herzbrun sign it, and we have so written him."

On May 19, 1953, I accepted Mr. Mittelman's understanding with respect to the fee arrangement but waived any further fees which Mr. Fischman might award me. I asked, however, for a commitment that plaintiffs' New York attorneys would press in Nevada "the charges I made here in California." I offered my full cooperation. I advised that I would sign the stipulation adjourning the security motion, and indicated that had Mr. Mittelman clarified this matter some time ago as I pleaded there would have been no need of the substitution. I wrote: "I suggest further that you prepare a letter agreement which I can file with the defendants in New York, Nevada and California." [694]

I received no answer to my letter of May 19, 1953; but when I heard that Mr. Kipnis, through Mr. Henry Herzbrun, was doing things in California without any formal substitution of me and without the letter agreement which I requested, I wrote to both Mr. Mittelman and Mr. Kipnis on June 26, 1953, that I considered the steps taken as a breach of our relationship and "not in the best interests of the clients." I wrote them further: "Not having heard from you in response to my letter of May 19, and in view of the present circumstances, I withdraw my waiver of any further fees mentioned in my said letter."

I wrote also: "Please prepare and forward to me an agreement of substitution." I received no response to this letter of June 26, 1953; but on or about July 13, 1953, Mr. Kipnis came to my office and we discussed the California action as if it were being prosecuted. All the time Mr. Kipnis knew that he had caused a dismissal of the action on June 26, 1953.

On July 14, 1953, I wrote Mr. Kipnis in care of Mr. Herzbrun as follows:

"Dear Lou:

"I learned for the first time today from the office of Mitchell, Silberberg & Knupp that the above action was dismissed on or about June 26th against all parties and on your written consent. As you well know in view of our conversation last night which was predicated upon the continuation of the suit here, and my substitution by Henry Herzbrun, this information comes as a surprise and a shock to me.

"I believe an appropriate record should be made before Judge Harrison concerning my ignorance of, and [695] the absence of my consent to, the procedure followed.

"I believe also that before you leave California the substitution should be made as well as the agreement for my fees and compensation.

"Advise me immediately when you can meet with me to accomplish what I deem to be absolutely necessary in the circumstances.

"I have this date telegraphed you care of Mitchell, Silberberg & Knupp as follows:

"Have Just Been Advised of Dismissal of California Action Against All Defendants With Your Approval But Without My Knowledge. Request Appropriate Record Be Made Before Judge Harrison and That You Meet With Me Immediately on Substitution and Fee Agreement."

"Very truly yours,

"/s/ BERNARD REICH.

"cc: Louis Kipnis, Esq.,
c/o Hollywood Roosevelt Hotel;
Bernard D. Fischman, Esq."

By letter of November 4, 1953, Mr. Kipnis wrote me enclosing letters from the clients purportedly ratifying and confirming my "discharge as attorney on May 7, 1953." The letter from the plaintiff Feuerman was dated October 26, 1953, and the letter from the Castlemans was dated October 29, 1953.

11. It will be noted that my differences with plaintiffs' New York attorneys and which brought about my so-called [696] discharge took place prior to May 7, 1953, when Mr. Mittelman wrote me that he was acceding to my request to be relieved. It will be noted furthermore that on May 18, 1953, the fee arrangements were confirmed so that obviously there is no charge of disloyalty prior to May 18, 1953.

12. Any charge of disloyalty could only have

substance if it took place before the confirmation on the last-mentioned date. From what therefore stems the present charges of disloyalty? What was it that I, as an attorney, did after May 18, 1953, which should bar me from obtaining fees and costs?

Did I wrongfully dismiss the action?

It will be noted that after my so-called discharge on May 7th (or when I received the letter), I signed a stipulation continuing the motion for security and the deposition of Mr. Hughes. The fact is that I am still attorney of record and have not been effectively discharged.

13. I would assume that plaintiffs' New York attorneys take the position that by moving to vacate the order of dismissal I was disloyal and that they could properly discharge me for such an act. In the first place they had already discharged me and ratified the fee arrangements. In the second place I was successful in setting aside the wrongful dismissal of this action. It is this order of dismissal which this Court said was unfairly presented to it. Unfairly presented by whom? I would assume that the order was unfairly presented by the defendants and by plaintiffs' New York attorneys. If I was disloyal in successfully moving to vacate the order of dismissal of June 26th, to whom was I disloyal? Was it to the plaintiffs who had brought a representative suit in behalf of all stockholders, or was it to plaintiffs' New York attorneys who had interests in conflict with the best interests of the [697] stockholders?

14. To sum up on this point:

My position prior to May 18, 1953, was completely vindicated on that date when plaintiffs' New York attorneys confirmed my fee arrangements and promised to oppose defendant's motion for security. It was plaintiffs' New York attorneys who broke their agreement by dismissing the action and therefore making the motion for security moot. Furthermore, by dismissing the action without my consent and without a formal order of substitution they prejudiced my position as an officer of the Court. That they failed is no credit to them. That I succeeded in restoring this case is likewise no credit to them and certainly is not "disloyalty," except in the sense that I refused to be an accessory before or after the fact.

15. Finding 7, page 5, of the final order in the Eighth Judicial District of the State of Nevada in and for the County of Clark, made April 5, 1954, and being Exhibit 7 to the Affidavit of George Benedict, Jr., made May 24, 1954, provides as follows:

"7. That the plaintiffs Eli B. Castleman, et al., on their motion, have established that they are entitled to recover from such fund their reasonable expenses; that a reasonable allowance to them for such expenses is as follows:

"For attorneys' fees, \$125,000.00;

"For accountants' fees, \$25,000.00;

"For disbursements for expenses of their attorneys, \$8,000.00;

"For disbursements for expenses of their accountants, \$2,000.00;
"that such allowance shall cover all fees for all attorneys who [698] have appeared in any action, wherever pending, on behalf of Eli B. Castleman, et al., the plaintiffs in this action, and all accountants or others who have rendered any services on their behalf, whether or not such attorneys or accountants have appeared in this Court."

16. Paragraph 2, page 7, of said order provides as follows:

"2. That the cross-motion of the plaintiffs Eli B. Castleman, et al., for allowance of their reasonable expenses is granted; and judgment is here rendered that Eli B. Castleman and Marion V. Castleman, doing business as Wolverine Textile Company, and Louis Feuerman have and recover of and from RKO Pictures Corporation and RKO Radio Pictures, Inc., jointly and severally, the sum of One Hundred and Sixty Thousand (\$160,000.00) Dollars as reimbursement of such plaintiffs for all expenses for attorneys and accountants and other disbursements incident to the prosecution of this and all other actions in which Eli B. Castleman, et al., or any of them, are plaintiffs as stockholders of RKO Pictures Corporation."

17. It will be noted that the fees and costs awarded by the Nevada court were to be paid to Louis Feuerman and the Castlemans for all legal services rendered to them in all jurisdictions. Under my agreement with their agents, Messrs. Mittelman

and Kipnis, I am entitled to 10% of the fees, that is 10% of \$125,000.00, plus such additional amount as Mr. Bernard Fischman would determine. Since by wrongfully discharging me plaintiffs have obviated the necessity of obtaining the determination from Mr. Fischman or limiting me to the [699] contract price, I am entitled to the reasonable value of my services which, under the law, may exceed 10% even if the determination of Mr. Fischman is not considered, and must exceed 10% if the factor of Mr. Fischman is to be considered.

18. As of the date of this affidavit I have expended in excess of 810 hours and \$1,538.65.

19. Except for eighteen months in the Army, I have continuously practiced law in New York and in California since 1937. Where a charge on an hourly basis is indicated, and I do not so limit myself except for retainer clients, I charge between \$35.00 and \$50.00 per hour, depending upon my client's ability to pay.

20. This case has been exceptionally difficult. The papers of plaintiffs' New York attorneys filed in this Court have been false and scurrilous and have required my attention to the minutest detail. I have had to fight off smokescreen after smokescreen, including false allegations that I had some relationship to the proposed interveners Rosenthal, relationship to the Delaware plaintiffs, Schiff and Sack; that I hospitalized myself in order not to appear in the Las Vegas court, and that I had no

interest other than to collect a fee. I have even had the Rosenberg treason trial brought in by plaintiffs' New York attorneys as some precedent for action which this Court was asked to direct against me. My authority to act for the plaintiffs was challenged. Even my authority to act for the proposed interveners Novembers was challenged. Here then was the only attorney of record, myself, being challenged by plaintiffs' New York attorneys who are not and have never been attorneys of record for the plaintiffs in this action in accordance with the Local Rules of this Court. I have had my appearance challenged by Mr. Robert Silver acting [700] for plaintiffs' New York attorneys, but who has never himself filed an appearance as attorney of record, and who has not been substituted in accordance with the Local Rules of this Court. I have had my deposition taken, an astounding thing in itself, and wherein Mr. Silver examines me and Mr. Raymond Cook of Texas representing Mr. Hughes cross-examines me.

21. No award made by this Court can compensate me for the effort which I have made in this case. This I knew at the outset when I informed this Court that I wished only to act as an ethical officer who had a duty to present the facts and whose duty to the Court and to the stockholders transcended any possible duty he had to his New York correspondents. Now that the battle has been won and Mr. Hughes, no thanks to Messrs. Kipnis and Mittelman, has paid between \$2,000,000 and

\$12,000,000 in settlement of the lawsuits against himself, and in view of the fact that Messrs. Kipnis and Mittelman have been paid \$125,000 for the services they purportedly rendered, I do not in good conscience feel that I should waive my fees for the benefit of Messrs. Kipnis and Mittelman or the corporations which have harvested the crop which I have sown.

22. In my affidavit in support of my motion for counsel fees and costs against the RKO defendant, I have tried to spell out how I arrived at the settlement figure of between \$2,000,000 and \$12,000,000, and what part I played in bringing about that settlement. In this affidavit I have already demonstrated in part the fact that Messrs. Kipnis and Mittelman would have been content with a \$1,000,000 settlement. I know this from a telephone conversation had with Mr. Mittelman soon after the Cochran Ranch conference, from the fact that neither Mr. Kipnis nor Mr. Mittelman denied it in answer to my letters, and from Mr. Kipnis in my office here in Beverly Hills on July 13, 1953, [701] when he told me that the 1952 loss by RKO of \$10,000,000 was a paper loss, and from the fact that he brushed off any evidence that I gave him to the contrary.

23. I was informed by Mr. Bernard Fischman that Mr. Mittelman claims to have paid Mr. Robert Silver \$5,000.00 counsel fees for the work done by Mr. Silver in this case. So far as I know Mr. Silver

filed only the papers prepared for him by Messrs. Kipnis and Mittelman and took my deposition.

24. One final word: The papers which I have filed and my arguments to this Court at the many hearings I hope will bear me out in the simple statement that I tried only to do my duty to the Court and to the stockholders and that I tried to conduct myself with dignity, doing only what I must, and defending myself temperately and in keeping with the sworn duty of an officer of this Court.

/s/ BERNARD REICH.

Subscribed and sworn to before me this 28th day of June, 1954.

[Seal] /s/ HELEN SPARKMAN,
Notary Public in and for the County of Los Angeles, State of California.

[Endorsed]: Filed June 28, 1954. [702]

[Title of District Court and Cause.]

MOTION FOR COUNSEL FEES AND COSTS
FROM THE DEFENDANTS OTHER THAN
BANK

Comes Now plaintiffs' and proposed interveners' attorney, Bernard Reich, and moves this Honorable Court as follows:

1. In the event that the Court dismisses the within action, that it determine the reasonable value

of the legal services rendered by attorney, Bernard Reich, for the benefit of the RKO defendants, determine the amount of costs expended, enter judgment in favor of said Bernard Reich for the amounts fixed and determined, and condition dismissal on the payment of said judgment by the defendants other than The Chase National Bank.

2. For all proper relief.

Dated: June 28, 1954.

/s/ BERNARD REICH,
Attorney for Plaintiffs and
Proposed Intervenors. [712]

[Title of District Court and Cause.]

AFFIDAVIT OF BERNARD REICH IN SUPPORT OF MOTION FOR COUNSEL FEES AND COSTS AGAINST THE DEFENDANTS

State of California,
County of Los Angeles—ss.

Bernard Reich, being first duly sworn, deposes and says:

1. I am the attorney for the plaintiffs and proposed intervenors and make this affidavit in support of the motion for counsel fees and costs as against the defendants.

2. This is a stockholders' minority or derivative suit, in which the fees and costs of an attorney are

paid by the corporation which in fact and in law is the beneficiary of such suit.

3. It should be noted at the outset that while the defendant Hughes is nominally represented by counsel other than those who represent the corporation defendants, nevertheless there is no serious question but that Mr. Hughes dominated and controlled the [713] corporations and that the corporations' counsel was and is therefore Mr. Hughes' counsel.

4. It was because of Mr. Hughes' domination of the corporations and their directors that these corporations and directors who were non-residents of the State of Nevada nevertheless submitted to its jurisdiction for Mr. Hughes' personal convenience, benefit and purposes.

5. I incorporate by reference my affidavit submitted simultaneously herewith in opposition to the defendant RKO's motion to dismiss, and my affidavit in support of the motion for counsel fees and costs against the plaintiffs.

6. I incorporate by reference all of my affidavits heretofore filed in this action.

7. I press all my motions heretofore made and which have not been determined by this Court.

8. I resist defendants' motion to dismiss for the reasons set forth herein and in the memorandum submitted herewith in opposition to that motion.

9. Should, however, this Court be inclined to dis-

miss this action, then I respectfully request it to act on the motion herein for counsel fees and costs as did the Court in Las Vegas, Nevada, by its order of the 30th day of March, 1954, being Exhibit 4 to the Affidavit of George Benedict, Jr., dated the 24th day of May, 1954, and the Judgment of the 1st day of April, 1954, being Exhibit 6 to the Affidavit of George Benedict, Jr., dated the 24th day of May, 1954.

10. Attached hereto, marked Exhibit "A" and made a part hereof is a true and correct statement of the time expended by me or for me in this matter. It shows that up to the date of this affidavit there was expended 648 hours. As is the case with every practicing lawyer, not every minute or hour is recorded. [714] I would estimate unrecorded time as 25% of the recorded time, making a total of 810 hours expended.

11. Attached hereto, marked Exhibit "B" and made a part hereof is a true and correct statement of the disbursements made by me. It shows that to the date of this affidavit I have expended and advanced the sum of \$1,538.65.

12. Under letter of February 7, 1954, the defendant Hughes purportedly wrote to the defendant RKO Pictures Corporation offering "to purchase" all of its assets, "including any and all claims or causes of action" against him. He offered to pay \$23,489,478. Since there was outstanding 3,914,913 shares Mr. Hughes admitted that this amounted to

\$6.00 per share. At the time of the offer the stock was selling at \$2.87 per share.

13. It was my position and reaction immediately, and I stated it to this Court on the 15th day of February, 1954, that Mr. Hughes' offer to purchase was in effect an offer to compromise the lawsuits against him for \$12,000,000. I arrived at that figure in the following manner: I rounded out the \$2.87 per share figure to \$3.00. I rounded out the \$23,489,478 figure to \$24,000,000. I rounded out the 3,914,913 number of shares figure to 4,000,000. Mr. Hughes' offer of, in effect, \$6.00 per share was therefore an offer of more than \$3.00 over the market price of the stock. I took the \$3.00 figure and multiplied it against the 4,000,000 number of shares figure to arrive at the sum of \$12,000,000.

As set forth in my affidavit in opposition to the motion to dismiss, the Delaware court, in its decision dated March 26, 1954, stated that the board of directors, on the recommendation of RKO's general counsel, allocated \$2,000,000 to the lawsuits.

We are therefore discussing a settlement of between \$2,000,000 and \$12,000,000. [715]

14. At the hearing at which I made that analysis, Mr. Cook representing Mr. Hughes in effect rejected my suggestion that the offer was a compromise. It was Mr. Cook's position that it was an offer to purchase. This in effect was the position taken by Mr. Hughes' attorneys in the Eighth Judicial District of the State of Nevada in and for the

County of Clark when they moved that Court to dismiss on the ground that Mr. Hughes' offer to purchase of February 7, 1954, would extinguish the claims against Mr. Hughes and render the action moot. This motion to dismiss and the offer to purchase is on file here as Exhibit L to the Affidavit of George Benedict, Jr., dated June 8, 1954.

15. It was not until the hearing on the said motion to dismiss in Nevada that the fairness of the offer to purchase was put in issue by the defendants and it was not until after the Court found that the offer to purchase was fair that there was any admission that the offer to purchase was in fact an offer to compromise. The moving defendant in its Memorandum supporting the motion to dismiss made the admission as follows:

"Since the offer [to buy] included a recitation that it was for all assets, including any claims or causes of action RKO might have against any person, including Hughes, it could be viewed as having the aspects of a settlement of the derivative actions then pending. On February 11, 1954, Hughes moved in the Castleman-Nevada action for a dismissal thereof with prejudice, on the ground, among others, that consummation of the sale would render the action moot as to him."

Please note that Mr. Hughes' offer to buy was made under date of February 7, 1954, and that the motion to dismiss was made on February 11, 1954, before the date of consummation. Please [716] note

also that if the offer of Mr. Hughes made February 7th could be viewed as having the "aspects of a settlement" that fact could have been made clear and part of the motion made by Mr. Hughes on February 11, 1954. And finally, please note also that while the Memorandum in support of the motion to dismiss here states that the motion was made on the ground "among others" that the Nevada action was moot, the fact is that the other grounds did not include any notice that the offer to buy could be viewed as having the "aspects of a settlement of the derivative actions then pending."

16. Why was it necessary belatedly to admit that the position I took months previously was correct, that is, that Mr. Hughes' offer to purchase was in fact an offer to compromise? If Mr. Hughes' offer to purchase is not an offer to compromise, then a dismissal of the Nevada suit for mootness would not be res judicata in this Court. This Court, before it could dismiss, would have to decide as a matter of law that a defendant in a stockholders' derivative action buying up the assets of the corporation, including the claims against himself, rendered an action moot. This raises a very serious question. My own position would be that any stockholder who did not sell out to Mr. Hughes could continue to maintain the suit, and I so informed the Court at the hearing on the 15th day of February, 1954. On the other hand, if Mr. Hughes was in fact compromising the lawsuits against him, and if the action in Nevada was truly adversary and

not collusive, then the claim could be made here in this Court that the judgment rendered in Nevada was res judicata. This is the reason for the switch in theories by the defendants and it will be noted that the switch took place after I made my position clear that Mr. Hughes could not avoid the prosecution of this lawsuit by any such plan [717] as buying up the claims against himself.

17. As demonstrated in my affidavit in support of the motion for counsel fees and costs against the plaintiffs, Messrs. Kipnis and Mittelman would have been satisfied with a settlement of \$1,000,000. It is therefore apparent that they did not induce Mr. Hughes to offer \$12,000,000 or even \$2,000,000. Since in the Delaware and New York proceedings the stockholders, Schiff and Sack, were unsuccessful, it is apparent that their attorneys did not induce Mr. Hughes to "compromise." In his offer dated February 7, 1954, Exhibit A to Exhibit 1 attached to the Affidavit of George Benedict, Jr., dated June 8, 1954, Mr. Hughes states:

"(a) There have been expressions of dissatisfaction among the stockholders.

"(b) I have been sued by certain of the stockholders and accused of responsibility for losses of the corporation."

The actions to which Mr. Hughes referred were obviously those in New York, California and Nevada. By February 7, 1954, the date of his offer, Mr. Hughes was successful in New York, and as

indicated was not sorely pressed in Nevada. The only place that he was pressed was in this action and by the local attorney of record for the plaintiffs.

18. Mr. Hughes was successful in New York because the challenge of collusion there was predicated upon hearsay. That is, it was predicated at least in part on the affidavits which I have filed here. I took no part in the New York action. I did not even furnish the affidavits. My deposition was not taken and I gave no evidence. Also in New York they never had jurisdiction over Mr. Hughes. I believe I had and have; or at least Mr. Hughes knew that the order which dismissed him was [718] not final and was being effectively challenged in the California action which had been revived and was very much alive.

19. I believe I underestimate when I say that this action in California which the defendants tried unsuccessfully to dismiss and where the real issues eventually had to be met was an inducing factor in Mr. Hughes' finally admitted offer to compromise.

20. It is not necessary for me to claim that I was the sole inducing force. It is enough to prove that the corporations benefited to the extent of \$12,000,000 or even \$2,000,000, and that I rendered legal services in connection with the various cases which led to the compromise. As the legal memoranda filed establish, it is not necessary that there even be a fund or that if there is a fund that it has to be in the hands of this Court.

21. Defendants now admit that the offer to purchase was in fact an offer to compromise, and the mathematics show that the offer to compromise was \$12,000,000, or \$2,000,000, if the allocation of the RKO Board of Directors is conclusive. Defendants admit that \$125,000 was fixed as the reasonable value of the services rendered by Messrs. Kipnis and Mittelman in Nevada. They have not appealed from the final order. If then Messrs. Kipnis and Mittelman are entitled to \$125,000 for services rendered leading to a \$1,000,000 settlement, what is the reasonable value of the legal services rendered by an attorney who, to say the least, tried to put backbone into Messrs. Kipnis and Mittelman with the evidence that the claims were worth upwards of \$10,000,000?

22. As partially indicated in my affidavit in support of the motion for counsel fees and costs against the plaintiffs, this has been a difficult matter, bitterly contested. This [719] stems from the fact that anyone who stands up to be counted on the side of justice and equity must expect to have mud thrown at him. The defendants were represented by strong and able counsel. There was bound to be the issue of personal integrity as to all counsel. This does not make for a quiet, dispassionate lawsuit.

23. Moreover, while the smearing was done by plaintiffs' New York attorneys, the defendants took advantage of the situation to confuse the issues and create almost but not quite, insurmountable obsta-

cles and diversions in New York, Delaware, and Nevada.

24. When the plaintiffs through their New York counsel refused to advance the costs I felt it my duty to advance them in the interests of justice and in conformity with my ideas of the duties of an officer of this Court. In that connection I pledged my credit and guaranteed payment of the fees of any Special Master that this Court would appoint. The fact that this Court has not to date appointed a Special Master does not reflect to my discredit or deny the fact that in the interests of establishing the facts I was willing to guarantee payment of fees.

25. There is one other factor which I believe should be weighed by this Court in fixing my fees, and that is the possible effect of this case on my practice, past and future.

On April 6, 1953, Mr. Kipnis wrote me as follows:

"You cannot deny that Mr. Hughes is a formidable and resourceful antagonist. Moreover, he has unlimited funds at his disposal. We were able to corner him in Nevada on the basis of a film reporter's tip. Apparently Mr. Hughes found it inconvenient to oppose our attack in Nevada, nor did he have available in that jurisdiction [720] the security statute available to him in New York and California. Without looking too closely into his motives, with which I am not presently concerned, I realize that we now have a device which makes it

possible for us to move forward rapidly and without harassment and interminable motion procedures."

There is no question of Mr. Hughes' power and influence in this community. The almost complete blackout in the newspapers of the proceedings had in this case is evidence of it. I know of my own knowledge that the working members of the entertainment industry are in fear of him. They either have worked for him, are working for him, or hope to work for him. While I am sure that there is some measure of respect from these people for my "courage," I am equally sure that a good many of them do not want to link their names with that of a lawyer who has thwarted or "bucked" Mr. Hughes. In other words I do not think that this lawsuit has, to say the least, helped my practice. Actually I am persuaded to the contrary.

26. Part of the smear in this case has been the insistence by counsel on the other side and by plaintiffs' New York counsel that my sole interest was a fee. They could not appreciate apparently that a young lawyer (really not so young) could put his duty to the Court and to the stockholders above his self-interest. As I told this Court earlier I could have taken a quick profit of what could have been at least \$12,500 (i.e., 10% of \$125,000) and ran. Moreover, as the Court pointed out in one of many hearings, its award to me would not be final and I should be prepared to spend my substance in the appellate courts. I aver again that my [721] primary motivation throughout this action was to

fulfill my sworn obligations to the Court and to the stockholders. I believe I have been vindicated. If waiving my fee in this action would contribute also to the fair administration of justice, I would gladly do so. It happens that the contrary is true. If Mr. Hughes or his corporations avoid the payment of my fees then justice will have miscarried, as it has at Mr. Hughes' instance in other courts and in other places.

Wherefore I respectfully pray that if this Court dismisses the action, it should fix and determine my counsel fees and costs and condition any dismissal on payment of them to me by the defendants.

/s/ BERNARD REICH.

Subscribed and sworn to before me this 23rd day of June, 1954.

[Seal] /s/ HELEN SPARKMAN,
Notary Public in and for the County of Los Angeles, State of California. [722]

EXHIBIT A

Daily Time Sheets

Date	Nature of Service	Time
1952		
12/13—Tel. from Leo Mittelman, Kipnis; Tel. to Fischman .....	.8
12/14—Tel. from Fischman .....	.4
12/15—Letter from Kipnis; Tel. to Mittel- man; Prepared Complaint; Telegram to New York; Tel. to Clerk (2); Filed Complaint; Research; Misc.	7.	
12/16—Memo. to file; Letter to Mittelman and Kipnis; Misc.	1.	
12/22—Tel. to B. Fischman; Leo Mittelman..	.5	
12/30—Letter to Fischman .....	.4
1953		
1/5 —Letter from and Letter to Mittelman..	.4	
1/21—Letter to Mittelman and Kipnis; Misc.	.4	
1/26—Letter from Mittelman; Letter to Fischman .....	.5
2/2 —Tel. to Fischman .....	.4
2/4 —Notice from Court; Tel. to Judge Har- rison .....	.5
Total carried forward	12.3	

Exhibit A—(Continued)

Date	Nature of Service	Time
	Brought forward	12.3
2/5	—Letter to Judge Harrison; Conference Judge Harrison; Conference New York lawyers	2.
2/11 to		
2/18	—New York trip — Conferences Mittel- man, Kipnis and Fischman.....	3.
2/25	—Letter from and Letter to Kipnis; Misc.	1.5
2/27	—Letter to Kipnis (2); Revised Com- plaint; Tel. to George Cohen; Misc....	5.
3/2	—Court appearance .....	.5
3/3	—Letter from Kipnis; Revised Amended Complaint	2.
3/4	—Letter from and Letter to Kipnis; Filed Amended Complaint; Misc.	3.
3/6	—Tel. from Kipnis; Tel. to and from Lipstich of RKO; Tel. from Marshal; Misc.	1.
	Total carried forward.....	30.3
3/12	—Letter from and Letter to Kipnis.....	.4
3/17	—Letter from Kipnis .....	.2
3/16	—Letter to Kipnis; Tel. from Kipnis; Tel. to Knupp (2)	1.5
3/17	—Rec'd Stipulations from Mitchell, Sil- berberg & Knupp .....	.4
3/24	—Letter from and Letter to Kipnis.....	.5

Exhibit A—(Continued)

Date	Nature of Service	Time
3/30	Letter from and Letter to Kipnis.....	.6
4/1	Memo to file; Letter from Mittelman..	.4
4/2	Rec'd copy of Notice of Motion for Security for Expenses; Tel. to Fisch- man .....	.5
4/3	Tel. to Kipnis; Tel. to and from Knupp; Notice of Deposition; Letter to Kipnis (2); Letter from Kipnis; Tel. from Kaufman (2); Letter to Kipnis; Research	4.
	Total carried forward	38.8
4/8	Letter from and Letter to Mittelman; Tel. to Fischman, N. Y.....	1.5
4/9	Letter to Fischman; Tel. from and Tel. to Knupp; Revised Stipulation; Misc.	1.5
4/13	Letter from and Letter to Mittelman and Kipnis; Court appearance; Tel. to Fischman, N. Y.	3.
4/14	Tel. to Kipnis; Letter to Knupp.....	.6
4/15	Tel. from Knupp .....	.4
4/16	Conference Knupp; Judge Harrison..	3.
4/20	Letter from and Letter to Mittelman; Tel. from and Tel. to Knupp.....	1.5
4/24	Tel. to and Tel. from Fischman, N. Y.; Letter from Kipnis; Tel. to Fresno; Conference Raymond Cook; Tel. to Knupp; Tel. to Cook, Warne	4.
	Total carried forward	54.3

Exhibit A—(Continued)

Date	Nature of Service	Time
	Brought forward	54.3
4/26	Tel. from Mittelman .....	.2
4/27	Court appearance; Tel. from Fischman, N. Y.; Letter to Kipnis and Mittelman; Memo to file.....	2.5
5/5	Letter to Kipnis and Mittelman.....	.4
5/6	Tel. to Odlum, Fischman, N. Y.....	1.
5/7	Memo to file .....	.4
5/8	Letter from Mittelman; Misc.....	.4
5/11	Dictated Notice of Deposition; Letter to Mittelman; Letter to Fischman....	1.
5/13	Tel. to Knupp .....	.4
5/14	Letter to Odlum; Letter from Kipnis; Tel. from Fischman, N. Y.....	1.4
5/15	Letter to Kipnis; Tel. from and to Herzbrun; Conference Herzbrun and DeGroot; Letter to Fischman.....	3.
	Total carried forward	65.0
5/18	Letter to Odlum; Misc. ....	.4
5/19	Letter from and Letter to Mittelman; Tel. from Herzbrun .....	.6
5/21	Tel. from Knupp .....	.3
5/22	Letter and Stipulation from Knupp; Tel. from Knupp; Letter to Knupp; Tel. to Odlum .....	.9
5/25	Letter to Fischman .....	.4
5/26	Tel. to Herzbrun .....	.3

Exhibit A—(Continued)

Date	Nature of Service	Time
6/5	Tel. to Knupp; Tel. from Herzbrun; Misc. ....	.5
6/11	Tel. from Fischman, N. Y.....	.4
6/12	Letter to Odlum .....	.4
6/26	Letter to New York attorneys; Misc... .	.5
6/29	Notice from Clerk; Checked with Hocke	1.
	Total carried forward	70.7
7/1	Tel. to Herzbrun; Guy Knupp.....	.3
7/13	Telephone Conference Kipnis.....	2.5
7/14	Tel. from and Tel. to Benedict, Fisch- man, Sam DeGroot; Telegram and Let- ter to Kipnis; Dictated Agreement; Research; Tel. from Kipnis (2); Tel. to Warne (2)	4.2
7/15	Letter to McDonald; Memo to Warne; Dictated Affidavit; Tel. to Fischman; Tel. to Warne (3); Tel. from Kipnis; Tel. from Benedict	2.5
7/16	Tel. from Cook; Tel. to Benedict; Let- ter and Order from Benedict; Tel. to Warne	1.
7/20	Tel. from Warne .....	.3
7/22	Letter to Fischman .....	.4

Exhibit A—(Continued)

Date	Nature of Service	Time
7/24	Tel. to Warne; Knupp; Conference, Dictated Letter to Kipnis and Mittelman for Pacht, Tannenbaum & Ross..	2.3
		—
	Total carried forward	84.2
7/29	Letter from Warne; Tel. to DeGroot, Warne; Tel. from Herzbrun; Misc....	1.
7/30	Copy of letter from Warne; Letter to Gilson; Research County Law Library; Conference Warne	2.
7/31	Letter from and letter to Fischman...	.5
8/3	—Letter from and letter to Gilson.....	.4
8/6	Copy of letters from Warne; Tel. to and tel. from Warne; Tel. to Judge Harrison's Clerk; Conference Judge Harrison, Warne; Tel. to Hocke	2.5
8/7	—Dictated drafts of moving papers re Order of June 26th; Letter to Warne.	2.5
8/10	Tel. to Fischman; Dictated Memorandum of Points and Authorities; Research; Tel. to Warne	3.5
8/11	Memo to Warne; Letter to Fischman; Revised moving papers; Tel. to Warne (3); Delivered drafts to Warne's office	2.5
		—
	Total carried forward	99.1

Exhibit A—(Continued)

Date	Nature of Service	Time
	Brought forward	99.1
8/12	Revised Affidavit; Tel. to Warne; Letter to Fischman; Tel. to Odlum, N. Y.; Memo to Fischman; Misc.	3.
8/13	Letter to Gilson .....	.4
8/14	Misc.	1.
8/17	Letter from Warne (2); Letter from and letter to Fischman; Misc.	1.
8/21	Misc. ....	.5
8/25	Revised Affidavit; Letter to Fischman; Memo to file; Misc.	1.5
8/26	Conference M. Silberberg; Revised Affidavit; Misc.	4.
8/27	Tel. to and tel. from Fischman, N. Y.; Revised Affidavit; Letter to Fischman; Tel. to Judge Roth, Silver; Misc.	2.5
8/28	Misc. ....	.5
	Total carried forward	113.5
8/31	Letter to Gilson; Tel. to Roth and Gunter; Tel. to Warne .....	.6
9/1	Memo to Gunter .....	.3
9/2	Tel. from Gunter (2) .....	.5
9/3	Received copies of letters from Warne; Letters to Fischman (2); Meeting Roth and Gunter	2.5
9/4	Revised Affidavit .....	.4
9/5	Dictated Outline	1.

Exhibit A—(Continued)

Date	Nature of Service	Time
9/6	—Rec'd telephone call from Fischman; Dictated letter to Fischman.....	1.
9/8	—Tel. from Fischman .....	.5
9/9	—Telegram from Fischman; Misc.....	1.
9/10	—Filed Affidavit; Letter to Fischman; Letter to Gilson; Misc.....	2.
9/11	—Letter to New York County Clerk; Letter to Gelfand; Misc.....	1.
		—
	Total carried forward	154.3
9/14	—Misc.	1.
9/15	—Letter from Fischman; Letter from and letter to Gilson; Misc.....	.5
9/16 to		
9/29	—New York—Conferences Golub, Fisch- man, Gelfand, Harry; Tel. from Brandlin, Weisl, Cole	72.
9/30	—Dictated Opposing papers; Conference Brandlin; Received Opposing papers from Mittelman, etc., Checked file....	5.5
10/1	—Received McDonald's affidavit; Re- search; Dictated opposing affidavits, supplemental memorandum; Misc.....	7.
10/2	—Filed reply affidavits; Conference Schwartz; Misc.	5.
10/5 to		
10/9	—Letter from Gluckman, Schweig.....	.5

Exhibit A—(Continued)

Date	Nature of Service	Time
10/12	Tel. to Hocke; Letter to Gluckman, letter to Schweig; Letter from and letter to Mittelman; Tel. to Fischman; Tel. to Brandlin, Ambrose; Misc.....	2.
	Total carried forward.....	247.8
10/13	Received motion papers; Conference Brandlin; Dictated letter to Judge McNamee, Judge Harrison, Order	2.5
10/14	Studied defendants' motion papers; Received and studied Herzbrun's motion; Tel. from Brandlin; Letter to Judge McNamee; Tel. to Knupp, Warne; Received Transcript; Misc. .	4.
10/15	Dictated opposing papers to Herzbrun motions; Conference Schwartz; Tel. to Warne (2), Knupp (2); Conference Knupp; Stipulation re Continuance of defendants' motions; Research; Misc. .	7.
10/16	Received Silver's affidavit; Prepared and revised reply affidavit; Conference Ben Schwartz; Misc.	5.
10/17	Misc. ....	.5
10/19	Appearance before Judge Harrison; Tel. from Brandlin, Schwartz; Misc. .	3.
10/20	Confer. Brandlin, Vaughn, Schwartz .	1.5
	Total carried forward	271.3

Exhibit A—(Continued)

Date	Nature of Service	Time
	Brought forward	271.3
10/21	Tel. to Fischman, N.Y.; Tel. to and Tel. from Schwartz' office; Letter from McDonald; Letter to Woodburn; Misc.	3.
10/22	Tel. to and tel. from Schwartz' office; Tel. from Fischman, N.Y.; Misc.	2.5
10/23	Tel. to New York; Tel. from Selvin, Schwartz; Letter to Judge McNamee; Conference Selvin; Tel. to Ambrose ..	4.
10/26	Letter from Kipnis; Telegram to Judge McNamee; Misc.	1.
10/27	Misc. ....	.5
10/28	Conference Schwartz, Selvin; Misc. ...	3.5
10/29	Conference Selvin; Dictated letter to Judge McNamee; Letter from and let- ter to Silver; Misc.	2.
10/30	Letter to Judge McNamee; Conference Schwartz, Selvin; Misc.	3.5
<hr/>		
	Total carried forward	291.3
11/2	Conference Selvin; Misc. ....	.4
11/5	Letter to Silver; Misc.	1.
11/6	Misc.	1.5
11/10	Memo to Schwartz; Letter to Selvin ..	.5
11/11	Misc.	2.
11/12	Dictated moving papers; Tel. to Palm Springs, New York; Misc.	6.
11/13	Tel. from Silberberg; Misc.	2.

Exhibit A—(Continued)

Date	Nature of Service	Time
11/13 to		
11/15—Las Vegas	24.	
11/16—Filed papers; Misc.	1.5	
11/17—Letter from and letter to November; Letter to Fischman; Misc.	1.	
11/18—Misc.	1.	
11/19—Tel. to Fischman, N.Y., Nidorf; Tel. to Schwartz (2); Tel. from Silberberg, November, Schwartz; Memo to Schwartz, Hall, Adler; Conf. Nidorf, Schwartz; Misc.	4.	
Total carried forward	336.2	
11/20—Research; Dictated Memorandum of Points and Authorities, etc.; Conference Misc.	6.	
11/23—Memo to Schwartz; Checked Memorandum in support of motion; Misc.	2.	
11/24—Conference Paul Ziffren; Memo to Chantry; Misc.	2.3	
11/30—Court appearance; Memo to File; Letter from and letter to Ringer; Conference Alschuler; Dictated Memorandum of Points and Authorities re Compensation Special Master	4.	
12/3 —Memo to Schwartz .....	.3	
12/4 —Letter to Fischman; Misc. ....	.5	
12/9 —Memo to Schwartz; Received Subpoena	.5	

Exhibit A—(Continued)

Date	Nature of Service	Time
12/10	Received Memorandum opposing affidavits re Special Master .....	.5
12/11	Studied Silver's Memo; Received and Studied Knupp's memo; Conf. Schwartz	2.

	Total carried forward	354.3
12/14	Appearance before Judge Harrison; Memo to Schwartz; Misc.	5.5
12/15	Bernard Reich Deposition; Revised Order re Dismissal; Received Transcript of 11/30; Misc.	3.
12/16	Tel. to Knupp; Letter to Judge Harrison	1.
12/18	Tel. to and tel. from Murdock; Corrected and revised original deposition; Misc. re service on Hughes	4.
12/21	Letter to Gilson; Memo to Schwartz; Tel. to Schwartz; Misc.	2.
12/22	Conference Schwartz; Misc.	2.
12/23	Tel. to Foley; Conference Schwartz; Telegram and letter to Foley; Misc. .	2.5
12/24	Letter from Kipnis; Misc. Proposed Order	3.
1954		
1/4	—Letter to Ringer; Tel. to Fischman; Misc.	1.7

	Total carried forward	379.0

Exhibit A—(Continued)

Date	Nature of Service	Time
	Brought forward	379.0
1/5	—Letter to Fischman, Foley .....	.5
1/6	—Misc.	2.
1/8	—Misc. ....	.3
1/11	—Appearance before Judge Harrison; Memo to file; Telegram to New York Appellate Division; Misc.	2.8
1/15	—Misc.	1.
1/18	—Letter from and letter to Campbell, Clerk Appellate Court, N.Y.; Tel. from Fischman, N.Y.	1.
1/19	—Conference Lester Reinwald of Ring- er's office; Tel. to Clerk	1.
1/25	—Letter to Foley; Tel. from Schwartz; Misc. ....	.5
1/28	—Tel. to Fischman; Dictated affidavit on motion to vacate in part; research; Misc.	5.5
1/30	—Dictated Motion, Memo of Points and Authorities; Notice of Hearing	4.
	Total carried forward	397.6
2/1	—Checked and corrected papers; Letter from Nevada; Read transcripts; Misc.	2.5
2/2	—Rechecked papers; Misc.	1.
2/3	—Checked court paper file; Dictated Notice of Intention to Take Deposition of Hughes; Misc.	2.

Exhibit A—(Continued)

Date	Nature of Service	Time
2/4	—Telegram to Foley; Misc.	1.
2/5	—Misc. ....	.5
2/8	—Tel. to Schweig, N.Y., Ringer; Tel. to Ziffrin; Conference Schwartz; Tel. to and tel. from Schwartz; Misc.	4.
2/9	—Misc. ....	.5
2/10	—Misc.	1.
2/11	—Affidavit from Kipnis; Letter from Ringer; Misc.	1.5
2/12	—Telegram from Schwartz; Misc. ....	.5
		—
	Total carried forward	412.1
2/15	—Appearance before Judge Harrison; Letter to November, Foley; Misc.	5.5
2/16	—Conference Prinzmetal; Misc.	1.
2/17	—Misc. ....	.5
2/19	—Letter from and letter to November; Misc.	1.
2/20	—Tel. to Odlum ....	.5
2/23	—Letter from and letter to Lowy; Conference Schwartz	1.
2/24	—Research; Memo to Schwartz; Misc.	3.
3/5	—Dictated Petition, Motion, etc.	2.5
3/8	—Revised Petition, etc. ....	.5
3/9	—Dictated Affidavit ....	.5
3/10	—Letter from and letter to Kipnis; Dictated Memorandum; Misc.	3.
3/11	—Filed Intervention papers ....	.3
		—
	Total carried forward	430.9

Exhibit A—(Continued)

Date	Nature of Service	Time
	Brought forward	430.9
3/12—Misc.5
3/15—Misc.5
3/22—Tel. to Foley, Vegas; Misc.	1.
3/24—Received and answered affidavit in opposition	1.5
3/26—Conference Schwartz; Tel. to Benedict, Silver, Clerk	1.5
3/29—Appearance before Judge Harrison; Misc.	3.5
3/30—Letter and affidavit to November; Misc.	1.5
3/31—Misc.	2.5
4/1 —Misc.3
4/3 —Research3
4/5 —Misc.3
4/8 —Received papers re Motion to Dismiss; Conference Warne	1.
	Total carried forward	445.3
4/9 —Dictated Memorandum; Misc.	1.5
4/12—Received Notice of Depositions; Letter to witnesses; Misc.	1.
4/13—Dictated Motion to Quash, Affidavits (2); Proposed Order, Memorandum of Points and Authorities; Misc.	2.5
4/14—Checked papers; Tel. from Foley; Memorandum to and conference with		

Exhibit A—(Continued)

Date	Nature of Service	Time
	Selvin; Conference Gittelson; Tel. to Court's secretary	3.
4/15	Conference Judge Harrison; Telegram to Cook, et al., Letter to witnesses; Letter from Gelfand; Tel. from Benedict, Silberberg; Misc.	3.
4/16	Conference I. Pacht; Misc.	2.5
4/21	Letter from Fischman; Letter to Marshall, Schwartz	1.5
4/22	Conference Pacht, Silberberg; Misc. ..	2.5
4/23	Letter from Marshall, Letter to Katz .	.5
	Total carried forward	463.3
4/26	Letter to Fischman; Letter from and letter to Kipnis	1.5
4/29	Telephone to Golub, New York.....	.5
4/30	Telephone from Golub; Conference Selvin; Misc.	2.
5/3	Tel. to Fischman, N.Y.; Letter from Fischman, Silberberg	1.
5/5	Tel. from Fischman, N.Y.; Tel. to Golub. N.Y.; Dictated letter to Silberberg; Letter to Fischman	2.5
5/6	Conference Schwartz; Letter to Selvin; Misc.	1.5
5/7	Misc.	1.5
5/10	Misc. Conference	1.5
5/12	Letter from and letter to Fischman; Misc.	1.
	Total carried forward	476.3

Exhibit A—(Continued)

Date	Nature of Service	Time
	Brought forward	476.3
5/13—Misc.	.....	.5
5/14—Prepared for May 17th hearing		1.4
5/17—Court appearance before Judge Har- rison; Memo to file; Memo to Selvin ..		4.
5/20—Letter from and letter to November ..		.5
5/21—Telephone to Benedict re Judgment and findings .....		.3
5/24—Letter to Benedict .....		.4
5/26—Received papers from Benedict; Misc.	.....	.5
5/27—Tel. to Fischman (allocated); Misc. ..		1.
5/28—Received data from Selvin; Conf. Warne; Tel. from and tel. to Warne ..		3.5
5/31—Conference Warne; Misc.		1.
6/1 —Letter to Fischman .....		.5
	Total carried forward	489.4
10/53 to		
11/53—Research (Paul Selvin)		26.
4/14/54 to		
5/27/54—Research by Paul Selvin		59.
6/3 —Checked Selvin research; LT Selvin ..		1.
6/7 —Telephone from Selvin .....		.2
6/8 —Conference with Selvin; Telephone to Judge Harrison re Hearing Date ....		.4
6/9 —Studied memoranda and letter from Selvin; Letter to Selvin; Research; Checked transcripts; Prepared outline of affidavits		4.

Exhibit A—(Continued)

Date	Nature of Service	Time
6/10	Letter from and letter to Fischman; Conference C.W.	1.5
6/11	Preparation and dictation of draft of affidavit in opposition to motion to dismiss; Checked transcripts; Misc. . .	3.5
		—
	Total carried forward	585.5
5/27 to		
6/17	Research (Paul Selvin)	22.
6/14	Dictated draft of Affidavit, Notices of Hearing, Motion; Letter from Benedict; Misc.	3.5
6/15	Dictated draft of Affidavit re Counsel fees, etc., as against RKO	4.
6/16	Studied exhibits, revised affidavit in opposition to motion to dismiss; Dictated draft Opening Statement of Memo; Letter from Fischman; Telephone from Schwartz	6.
6/17	Revised affidavits; Analyzed Delaware and Nevada papers	7.
6/18	Telephone to and from Selvin; Research; Revised Notices	1.5
6/21	Dictated balance of draft of Memo of Points and Authorities; LF Selvin and research	6.5
6/22	Research law library; Dictated Memo re fees against Defendants; Revised;	

Exhibit A—(Continued)

Date	Nature of Service	Time
	Dictated memo re fees against Plaintiffs	10.
6/23	Revised and checked papers; Telephone from and to Selvin; Misc.	4.
	Total	648.0
		[747]

EXHIBIT B

Costs Advanced

Date	Amount
1952	
12/15—Filing Complaint	\$ 15.00
1953	
2 / 5—Telephone & Telegraph	28.51
3 / 2—Telephone & Telegraph	21.10
3 / 2—Expenses re New York trip	28.96
3 / 4—Marshal re service	12.80
3 / 6—Stenographic services	12.00
3/11—Marshal re service	4.00
5/13—Telephone & Telegraph	21.32
6 / 3—Telephone & Telegraph	11.25
6/12—Telephone & Telegraph	107.11
7/21—Telephone & Telegraph	5.19
8/25—Telephone & Telegraph	8.63

Date	Amount
9/15—Telephone & Telegraph	\$20.65
9/15—Photostating	5.50
9/29—Expenses re New York trip	100.00
10/14—Transcript	8.40
10/14—Postage .....	.90
10/16—Telephone & Telegraph	14.88
10/27—Stenographic services	25.30
10/29—Transcript	32.00
10/30—Telephone & Telegraph	28.43
11/5—Postage	2.68
11/10—Misc. re research, etc. to Paul Selvin	70.00
11/12—Air ticket Las Vegas	39.10
11/16—Expenses re Las Vegas trip	50.00
11/17—Postage [748]	1.00
11/20—Telephone & Telegraph	6.00
11/20—Misc.	4.95
11/23—Photostating	4.61
12/14—Telephone & Telegraph	92.23
12/15—Transcript	23.10
12/23—Investigation charges re service of process	150.00
12/28—Deposition	27.50
12/29—Transcript	37.70

1954

1/15—Telephone & Telegraph	8.35
1/15—Photostating	25.00
1/18—Certified copies of orders, N. Y.	2.26
1/18—Transcript	7.35
1/26—Expenses re Las Vegas trip	50.00

Date	Amount
2 / 2—Postage	\$1.96
2 / 2—Telephone & Telegraph	9.25
2 / 2—Investigation charges re service of process	241.85
2/15—Transcript	11.55
2/17—Telephone & Telegraph	7.25
3 / 1—Transcript	18.90
3 / 8—Postage	1.26
3/15—Telephone & Telegraph	22.80
4 / 5—Telephone & Telegraph	7.07
4 / 9—Telephone & Telegraph	4.25
4/21—Postage	3.32
4/23—Transcript	26.40
5/10—Telephone & Telegraph [749]	24.65
6 / 4—Postage92
6 / 9—Telephone and Telegraph	43.46
<hr/>	
Total Disbursements	\$1,538.65
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[Endorsed]: Filed June 28, 1954. [750]

[Title of District Court and Cause.]

MINUTES OF THE COURT—JUNE 28, 1954

Present: Hon. Ben Harrison,
District Judge.

Counsel for Plaintiffs: no appearance.

Counsel for Defendants: no appearance.

Proceedings:

For (1) hearing motion of plaintiffs to vacate in part order docketed and entered Jan. 12, 1954, and for other relief;

(2) hearing application of plaintiffs for leave to take the deposition of Howard R. Hughes;

Pursuant to motion, notice, memo. of points and authorities, and affidavit of Bernard Reich, and notice of intention to apply for deposition of Howard R. Hughes, filed Feb. 4, 1954;

(3) further hearing motion of Bernard Reich, Esq., local attorney of Record for plaintiffs for appointment of a Special Master, pursuant to Rule 53 of FRCP, and pursuant to motion, affidavit of Bernard Reich, filed Nov. 16, 1953, and renoteice of hearing, filed March 11, 1954;

(4) hearing motion of plaintiffs and the proposed intervenors, Julius November and Eleanor November to add and join parties plaintiff, or for leave to intervene, pursuant to motion, petition, affidavit of Bernard Reich, and memo. of points and authorities, and notice, filed March 11, 1954;

(5) hearing motion of plaintiffs to quash depositions noticed by Louis Kipnis, Leo B. Mittelman, and Robert Silver, Esqs., purported attorneys for plaintiffs, as noticed April 9, 1954, of witnesses, Benj. F. Schwartz, et al., pursuant to notice, motion, affidavit of Bernard Reich, and Memo. of points and authorities, filed April 1, 1954;

(6) hearing motion of defendant RKO Radio Pictures, Inc., for dismissal of this action with prejudice, pursuant to notice, motion, points and authorities, and affidavit, filed April 7, 1954, and order of continuance.

It Is Ordered that cause as to hearing on said motions, etc., is continued to July 12, 1954, 10 a.m.

EDMUND L. SMITH,
Clerk. [765]

[Title of District Court and Cause.]

AFFIDAVIT OF LOUIS KIPNIS IN OPPOSITION TO MOTION FOR FEES AND COSTS AS AGAINST PLAINTIFFS; AS AGAINST RKO; AND IN CONNECTION WITH RKO'S MOTION TO DISMISS WITH PREJUDICE

State of New York,
County of New York—ss.

Louis Kipnis, being duly sworn, deposes and says:

1. I am the attorney for the plaintiffs above named, and their only attorney herein with respect

to whom the conventional relationship of attorney and client exists. Messrs. Mittelman and Silver are associated with me in the above-entitled action.

2. This affidavit is in opposition to the motions herein made by Bernard Reich, Esq., in his own name and in his own behalf, (a) for fees and costs against plaintiffs; (b) for fees and costs against defendants RKO; and (c) in support of the motion made herein by RKO Radio Pictures, Inc., to dismiss the above-entitled action. [766]

3. This affidavit is made by me rather than by the plaintiffs because I am familiar with all the facts involved, whereas the plaintiffs have no personal knowledge of any of the matters set forth in the moving affidavit of Reich except as they have been informed and advised thereof by Mr. Mittelman and me.

4. A long time prior to December 13, 1952, I was retained by plaintiffs, among others, to take the necessary steps to compel Howard R. Hughes, et al., to redress the wrongs allegedly perpetrated by them against RKO and its wholly owned subsidiary, RKO Radio Pictures, Inc. In due course I commenced two actions for appropriate relief in the Supreme Court of the State of New York.

5. While said actions were pending in New York, and because we were unable to obtain jurisdiction of Hughes in New York, we decided, among other things, to commence a similar action in California, or in any other jurisdiction where Hughes resided.

6. Accordingly, on or about December 13, 1952, we requested Bernard Reich, a member of the Bar of this Court, to act as our local counsel in the action about to be commenced in this Court. We advised him that our arrangements with the plaintiffs required us to look for allowances for fees from such courts as had jurisdiction to grant fees, and that under no circumstances were plaintiffs to be obligated therefor. We agreed to pay him 10% of such counsel fees which might be awarded to us for services. We agreed further that in the event services beyond those anticipated from Reich were rendered by him, he might receive such additional compensation as would be determined by a mutual friend, Bernard D. Fischman of New York, who had submitted Reich's name to us. Among other things, he [767] specifically agreed to abide by our policies and by our decisions with respect to the prosecution of the California action.

7. Reich acquiesced to these terms. We mailed him a copy of our complaint in the New York action. He added the necessary jurisdictional paragraphs thereto, and caused the same to be filed in this Court.

8. Shortly thereafter, I met with Mr. Tom Slack, attorney for Hughes, at the home of Mr. Odlum at Indio, California. The full and complete history of that meeting has been set forth several times and will not be repeated here. At that meeting Mr. Slack stated that Mr. Hughes was a resident of the State of Nevada and that he was perfectly willing

to meet the issues raised by plaintiffs in that jurisdiction. He also stated that plaintiffs were free to sue in any state, including California, but that Mr. Hughes would contest jurisdiction if the action were prosecuted in any other state than Nevada. All the parties conceded that it was advisable that the issues be determined judicially and not in the newspapers and that procedural delays be avoided in order to prevent grave injury to RKO and its stockholders.

9. We examined into the facts as to Mr. Hughes' residence in Nevada, and into the advantages and disadvantages of proceedings in the Nevada Courts, and we concluded that it would be to the best interests of RKO and its stockholders to bring an action in the State Court of Nevada which had adopted the Federal Rules of Procedure effective January 1, 1953. We convinced ourselves that Mr. Hughes could successfully establish his residence in Nevada, and could successfully oppose any attempt to establish his residence in California. Moreover, it was our opinion that it [768] would be time-consuming and expensive to attempt to establish residence in California. So far as we were concerned it mattered not at all where we tried the issues so long as we could avoid tedious and expensive dilatory tactics. We had no doubt whatever of the integrity of the Nevada Court. We retained David Zenoff of the Nevada Bar to institute the action.

10. We concededly made the decision to institute the Nevada action without consulting Mr. Reich

or anyone else but our clients. The institution of the suit received immediate publicity and aroused also the ire and wrath of Mr. Reich who, apparently, saw vanishing from his grasp that which he had planned to take for himself, to wit, control of this action under the belief that this case would necessarily be tried in this Court, in consequence of which he would expect somewhat more than 10%.

11. Upon being advised of the commencement of the Nevada action, Reich first attempted to persuade us that our judgment was bad. He importuned us to make use of allegedly important factual information which he alone allegedly possessed. He pleaded to be named as co-counsel in the Nevada action so that he could examine Hughes in pre-trial hearings. He suggested a relationship with Floyd Odlum that could be most helpful. He intimated that the Nevada action could be misconstrued. He suggested that we might be charged with fraud and collusion. He insisted on attempting to establish that Hughes was a resident of California rather than Nevada for no other reason than that it would possibly establish control of the case in his hands with possible consequent financial benefits to himself. To that end he consistently violated instructions from us on the spurious ground that he was protecting the interests of the stockholders as a class. [769]

12. Reich became a problem child. We were besieged by long-distance calls without number. He sought the intervention of our mutual friend, Ber-

nard D. Fischman of the New York bar who had recommended him. The situation became intolerable. Finally, when Reich himself had suggested that he would prefer to retire in order to carry on himself on behalf of other stockholders, we agreed thereto, and, in desperation, offered to release him from all obligations to us. In addition, we agreed that our agreement to pay him 10% of our fees would survive his substitution, even though we would have to compensate the new and substituted counsel. We had by now become convinced that Reich's emotional instability was such that if financial sacrifice on our part could disengage us from him then we would make it (and we did).

13. By reason of his suggestion that we arrange to substitute him, we retained the late Henry Herzbrun. Stipulations of substitution were prepared. Reich changed his mind. He no longer wished to be substituted out of the case. It became necessary to discharge him; and, of course, under the circumstances it was our position that he had forfeited all right to compensation under our agreement.

14. In the meantime, we were preparing for trial in Nevada. We were taking depositions of numerous witnesses and marking for identification hundreds of voluminous documents.

15. Reich, as this Court well knows, thereafter made overt his previously suggested charges of fraud and collusion in the very case in which he asked us to name him as co-counsel. He even sought to

enter the Nevada action by the back door, stimulating and triggering and paying the expenses of a proposed intervenor (the Novembers—his present clients here) in the Nevada action. He even demands compensation at [770] \$50 an hour from plaintiffs for these efforts. (See "Time Sheet," page 14, line 19, and "Expense Sheet," page 1, line 30.) He also reached out to New York, and inspired the same charges of fraud and collusion in the courts of New York.

16. As we were readying ourselves for trial, Mr. Hughes took the unusual step of offering to buy up all the assets of RKO including the claims against him. The making of the offer came as a complete surprise to us, but we did not doubt for a moment that the proposed purchase price included a substantial amount attributable to the claims set forth in plaintiffs' two causes of action in Nevada, the only court wherein jurisdiction had been obtained over Hughes and the other defendants.

17. Thereafter, Hughes moved to have the Nevada suit dismissed with prejudice. Upon analysis of consequences of the Hughes offer, we requested the plaintiffs to cross-move for reimbursement of counsel fees for us and for the accountants' fees and of disbursements. This was done.

18. Bernard Reich was then advised by us as follows:

"March 8, 1954.

"Registered Mail

"Bernard Reich, Esq.

"328 South Beverly Drive

"Beverly Hills, California

"Re: Castleman v. Hughes

"Dear Sir:

"Please be advised that there has been circulated by RKO Pictures Corporation a proxy statement, a notice of special meeting of stockholders, a letter from the president, all dated February 28, 1954, and a notice of court hearing.

"In connection with the notice of court hearing, we have served a cross-motion, in [771] substance, for an order to reimburse my clients for counsel and accountants' fees and expenses.

"Reimbursement for said counsel and accountants' fees encompasses wholly and solely the services rendered by Mr. Mittelman and myself and others here in New York and by David Zenoff, Esq., of the Nevada Bar.

"There has not been nor will there be any claim made by my clients, or by us, for reimbursement of counsel and accountants' fees or expenses for anyone other than the persons above mentioned and specifically excludes any claim for services allegedly rendered by you. If you believe that your alleged services are compensable, we suggest that you assert so on March 22, 1954, at 10 a.m. before

Judge McNamee of the Eighth Judicial District Court of the State of Nevada, at Las Vegas, Nevada, specifying the scope, nature, extent and value of the same, if any.

"Please be further advised that the acts, transactions, court proceedings and communications, both oral and written, by you, to the press and to others, will be relied upon by us and our clients to resist the payment to you of any sum of money for your alleged services in the above-entitled case or elsewhere.

"We are not unmindful of the position taken by you before Judge Harrison that you claim that you are entitled to compensation on the basis of quantum meruit and this communication is not to be construed as a concurrence by us that such position is valid or tenable.

"Very truly yours." [772]

19. Bernard Reich deliberately and wilfully failed to appear in the Nevada Court to establish whatever claim to fees he felt himself entitled to for alleged services rendered.

20. Plaintiffs, we repeat, never contracted to pay Bernard Reich any fees, and such fees, if he were entitled to any, were forfeited by his misconduct and disloyalty as heretofore alleged and realleged.

21. There is no fund before this Court out of which fees could be ordered to be paid, and plaintiffs could not, as a matter of law, seek reimburse-

ment for counsel fees and expenses in this Court on behalf of Bernard Reich or anyone else.

22. Bernard Reich was discharged as attorney for plaintiffs for cause. He failed and refused to follow instructions. He was obstructive. He sought to take over the case. He wrongfully accused us of fraud and collusion. He undertook to take actions and procedures contrary to our instructions, and without the approval of our clients. He showed himself unfit to participate in the case by reason of temperament and disposition. In addition, and, finally, he was unfaithful to his retainer. Mr. Reich was discharged on or about May 7, 1953. Before and after that date he was guilty of all of the charges levelled against him by us in this affidavit, and documented in our earlier affidavits.

23. We appreciate the distasteful duty which has been thrust upon this Court. Though we believe that Reich was justifiably discharged by us, we at all times offered to negotiate, arbitrate or litigate the question of compensation, if any, to Reich. For example, when this Honorable Court stated on October 19, 1953, at page 38 of the transcript for that date: [773]

“I think there should be an adjustment made if you want to dispose of Mr. Reich in this case. It seems to me this Court shouldn’t be called upon to settle the internal quarrels. I don’t think they bring any credit to the Bar to

have counsel in court fighting over attorney fees. * * *,'

we accepted the suggestion.

24. In all seriousness and good faith, we attempted to follow the Court's suggestion and in that regard took the first step in an attempt to negotiate. This Court will recall that in an affidavit filed on November 25, 1953, in opposition to the appointment of a Special Master herein, we incorporated a letter which was written by Robert Silver, Esq., consistent with this Court's suggestion, and we included therein Reich's reply thereto. Reich, in short, refused to cooperate in this regard. Indeed, he wrote a letter to our mutual friend, Mr. Fischman, with regard to the matter. A portion of said letter was read to Mr. Mittelman with Reich's knowledge and consent, as Mr. Mittelman was informed by Mr. Fischman. It is as follows:

"Mittelman apparently had Silver, Herzbrun's successor, contact me regarding a settlement of our differences. Silver asked me for an itemized statement of my expenses and a bill of particulars regarding my fees. I have refused it on two occasions." (Emphasis ours.)

It is fairly obvious that Reich did not wish to adjust with us. He still believed, apparently, and as his subsequent acts showed, that he could force his way into control of the case. [774]

25. Next we thought that we might be able to arbitrate and again we tried to cooperate in that

direction and again we were rebuffed. This time the rebuff did not follow the prior pattern. Instead Reich proposed preconditions of such a nature (virtually a veto power over the course of this litigation) that he knew in advance, when he stated them, that his counterproposal to arbitrate would be unacceptable. We find Reich threatening to file affidavits accusing us of fraud and collusion unless we capitulate to his demands. Reich, in a letter to Fischman dated September 3, 1953, a part of which Fischman read to us on the telephone, threatened on the eve of the holiest day of our common religious calendar, as follows:

“If Mittelman does not making a binding agreement by Tuesday, September 8, 1953, to arbitrate before you the week of the 21st, I will file my affidavit, Thursday, September 10th.”

26. And, finally, with respect to Reich's refusal to litigate, we refer to the fact that on March 22, 1954, Reich filed a plenary law suit against us and others, including RKO, for one-half million dollars in the United States District Court for the District of Nevada, and caused deponent Kipnis to be served with the summons and complaint therein. Instead of prosecuting whatever cause of action Reich thinks he possesses, he dropped the suit under Rule 41 of the Federal Rules of Civil Procedure. On the basis of these factors, it is respectfully submitted that our statement hereinabove (Paragraph “23”) that Reich heretofore refused to negotiate,

arbitrate or litigate, has been established out of the mouth of Reich himself.

The only conclusion that can be drawn is that Reich wishes only to agitate and get his name in the papers, [775] as witness his reference in his application for fees from RKO, where he complains of "The almost complete blackout in the newspapers of the proceedings had in this case * * *." (Page 9, line 9).

27. A. It is evident that Bernard Reich is actually attempting to impress on this case now, in advance of the taking of proof and the making of a record, the factual and legal concepts which he would like to have accepted for purposes of the ultimate determination of the issues on the merits. In short, in this purportedly procedural motion, he is in fact seeking substantive determinations of a far-reaching nature—and utterly fallacious ones at that.

B. For example, he makes allegations as though there is no real dispute about them. Whereas, we have indicated time and again that Reich was discharged for cause, he repeats and realleges at every turn that this is a case involving a wrongful discharge and, consequently, that the applicable legal principles entitle him to compensation. Quite the contrary and to make doubly sure of the nature of our position, it is this, that our discharge of Reich was for cause, and that as a consequence he has no right to any compensation whatever.

C. Reich may have a right to contend for the

concepts embodied in his motions, no matter how erroneous or unfounded, and to ask the Court to accept them; but like any other arguments on the merits, these he is entitled to present only following the making of a record in an action brought for specific relief and on the basis of evidence contained therein. It may not properly be accomplished by assertion and argument in a motion of the kind with which we are here confronted. [776]

28. Reich thereby finds himself in a dilemma of his own creation. If his collateral attack on the Nevada judgment is sustainable, then it follows that the case cannot be dismissed, from which it necessarily follows that Reich may not apply for fees, since the case will not have been terminated by judgment or compromise before this Court. On the other hand, if the Nevada judgment receives the full faith and credit to which it is entitled, and since said judgment explicitly finds not only freedom from collusion but that the same was diligently prosecuted and that the stockholders were most adequately represented, and since the Nevada Court had jurisdiction to render full and complete and equitable justice, then Reich is entitled to no compensation. Therefore, by reason of the foregoing, this application for fees by Reich is utterly untenable.

29. In what has been said above, we have set forth the facts justifying the propriety of Reich's discharge, and the facts which lead to the legal conclusion that this Court has no power or jurisdiction

to grant either of Reich's applications for fees. I might also add that in the event this Court grants the defendants' motion to dismiss, then the motion heretofore made by us for a substitution of attorneys becomes moot, and there is no necessity for passing on the same or attaching conditions. Indeed, we respectfully request this Court to permit us to withdraw said motion and we herewith do so move.

30. Among other things, Reich attached to his application for fees a table of hours spent for which he seeks compensation, and an itemized list of expenses for which he seeks reimbursement. We refer to these tables not because we believe this Court has the power or right to consider them in regard to Reich's application for fees [777] (since we contend this Court has no power or jurisdiction to pass upon the same), but because they mirror and reflect obviously non-compensable services, though superficially appearing to constitute efforts in prosecution of the action. Hereinafter, we shall show that the alleged services in question were, in fact, performed in Reich's personal interest, and in opposition to the interests of the action, and in contravention of instructions.

31. In seeking compensation from the plaintiffs, Reich has taken eighteen pages to tell his story. The bulk of the material consists of quotations from self-serving letters which have been controverted by reference to chapter and verse. Since these warmed-over false charges are again submitted, we will not again document the denials but incorporate

those already given, under oath, on an earlier occasion.

32. In Paragraph "20," Page 16, Reich recites that he has had to fight off false charges made by us and that these required his "****" attention to the minutest detail." "Let's look at the record," and we mean the Reich record (his very own time sheets). Taking the listed "false charges" seriatim, as recited in his affidavit, we find:

(a) Re: the California-Rosenthal intervention. Of this intervention Reich claimed ignorance time and again. In the examination before trial (on December 15, 1953) of Reich, he objected and did not testify to whether he conferred with Mr. Brandlin with reference to the Rosenthal petition to intervene. His own time sheets show contact with Rosenthal's New York lawyer (Gelfand) on September 11, 1953; telephone contact with Rosenthal's California lawyer (Brandlin) between September 16 and 29, 1953; conference with Brandlin on September 30, telephone contact with Brandlin on October 12, 1953; conference with Brandlin [778] on October 13, 1953; telephone contact with Brandlin on October 14, 1953, and again on the 19th; and a conference with Brandlin on the 20th. It is for these hours (of inciting the fighting of the plaintiffs) that Reich wants \$50 an hour.

(b) Re: Schiff and Sack. They were plaintiffs in New York and Delaware actions against Hughes, et al. Reich under oath on December 15, 1953, six months after he was discharged by plaintiffs, tes-

tified before trial that he telegraphed their lawyer, Halperin, from Las Vegas volunteering help. And for this Reich not only wants plaintiffs to pay him \$50 an hour, but to pay for his fare and expenses to Nevada and for the telegram to Halperin.

(c) Re: Charge of self-hospitalization to avoid testifying before Judge McNamee on the fake charge of collusion: On this score Reich is hoist on his own petard. A look at his time sheets for Monday, October 19, 1953, shows "Appearance before Judge Harrison." I was in Court and saw Reich; he was in fine fettle. On Tuesday, the 20th, Reich records charges for which he expects \$50 an hour; on Wednesday, the 21st, more \$50 an hour charges; on Thursday, the 22nd, more \$50 an hour charges; on Friday, the 23rd \$200 worth of charges (i.e. 4 hours). Saturday and Sunday are clear. On Monday, the 26th, more charges and again on Tuesday, the 27th, the hearing day in Nevada, more small charges. Were we not therefore justified in contending that Reich hospitalized himself only to escape from the need to testify? Reich's time sheets and his affidavit thoroughly confirm this most serious charge and simultaneously and just as thoroughly cast serious doubt on the validity of the time sheet and the integrity of its author. Now it may be that Reich was in the Cedars of Lebanon Hospital between October [779] 19, 1953, when he stood before Judge Harrison and October 26, 1953, when he sent the telegram to Judge McNamee saying that he was hospitalized, but it cannot be deduced from

an examination of his affidavits or time sheets. And how disabling an illness could it have been (if illness it was) if Reich was able to and did carry on his affairs?

(d) As to his desire only for a fee: Is there any doubt about this? Reich's motions herein speak for themselves.

33. A. I have analyzed the daily time sheets submitted by Reich wherein he claims that he devoted to this matter a total of 648.0 hours of recorded time between December 13, 1952, and June 23, 1954.

B. It is to be noted that Reich was discharged on May 7, 1953, (though he had expressed a desire to be relieved as early as April, 1953). Between the date of his retainer and the date of his discharge, Reich has only 58.8 recorded hours. The balance of 589.2 recorded hours are entered after his discharge.

C. Of the 58.8 so-called recorded hours before his discharge, at least 5.7 hours seem to be devoted to letters and telephone calls to Fischman who had absolutely nothing to do with the prosecution of this action. At best, Reich seems to have devoted 50 hours to the case before his discharge.

34. It seems to us that following his discharge Reich was an interloper or at best a volunteer who was acting on his own. Yet, if we are to look at the matter realistically, we find ourselves formulating this question: Is Reich entitled to compensation for

fomenting or soliciting interventions in California and Nevada, and for continuing in an action wherein he had been discharged? [780]

25. Let us examine some of the larger charges of time. As the first example:

(a) We find that Reich came to New York between September 16 and September 29, of 1953, and charges 72 hours to plaintiffs at the rate of \$50 an hour. And what did he do in New York according to his record? He conferred with Golub, Fischman, Gelfand and Harry (?). And he had telephone calls with Brandlin, Weisl and Cole.

Golub is the lawyer he sought to retain to bring a law suit against Mittelman and me.

Fischman is the lawyer who introduced Mittelman and me to Reich.

Gelfand is the attorney for the Rosenthals who sought to intervene in this Court and who applied for a fee before Judge McNamee which was denied.

Brandlin is Rosenthals' California lawyer.

Weisl and Cole represent interests connected with Mr. Odlum.

But what do any of these activities have to do with the prosecution of the plaintiffs' suit, either before this Court or before Judge McNamee. They were activities calculated to further only the personal interests of Mr. Reich. They were against the interests of plaintiffs. They had for their purpose the taking over of the control of the litigation in

Reich's interests, and for this he seeks to charge plaintiffs. More hours were spent by Reich on this futile personal adventure than were spent by him on the prosecution of the California action prior to his discharge.

(b) We next examine the entry of November 13 to November 15, 1953—"Las Vegas—24 hours." What were these hours devoted to? Reference to the calendar reveals this to be the week end. It was for the purpose of [781] obtaining counsel in Nevada for the Novembers so that they could move to intervene in the Nevada action and against the interest of the plaintiffs. The motion for intervention was dated November 17, 1953, two days after Reich obtained counsel;—and the moving papers?—we already established that they were prepared by Reich! For this Reich desires compensation from plaintiffs at \$50 an hour, or a total of \$1,200.

(c) Let us next examine the entry entitled "10/53 to 11/53 Research (Paul Selvin) 26 hours." It is most interesting. Here we have Reich not only claiming compensation for time at the rate of \$50 an hour for work done by one Selvin, but we also find, from an examination of the disbursement record (11/10/53, Ex. "B," p.1, 1.29) a payment of \$70 to said Selvin—compensation at the rate of something just over \$2.00 per hour. Who is exploiting whom? Not only did Reich not perform the work for which he demands \$50 an hour (or a total of \$1,300) but for that self-same time he paid out a total of \$70, reflecting a gross profit to himself of

\$1,230. And if the same rate of compensation is to be paid to Selvin for the subsequent entries entitled "4/14/54 to 5/27/54—59 hours," Reich stands to profit by an additional \$2,750 since he charges plaintiffs for these hours, devoted by Selvin, also at the rate of \$50 an hour. And if Reich does the same with the item of 5/27 to 6/17 of 1954 (p. 25, 1.3 of Ex. "B") "22 hours," there will accrue an additional profit of over \$1,000.

It would seem that Selvin was employed by Reich to do the so-called research work. (Please see the further entries of 6/21/54 and 6/23/54, p. 25, lines 24-30). That Reich chose to pay Selvin at the rate of less than \$3.00 per hour, while seeking \$50 per hour for himself for [782] such services is significant not because plaintiffs are by any means liable therefor (which they are not), but because it throws light on Mr. Reich's monopolization of all the honesty, decency and integrity in this case.

(d) Further examination of the record after Reich was discharged shows that he spent a great deal of time writing letters to Fischman, to Warne and to a host of persons having no possible connection with the prosecution of plaintiffs' actions in this or any other court. For these pursuits Reich claims a total of approximately 175 hours. It is difficult to be accurate in this regard because Reich frequently bundles his time record with unrelated items as for example: "Court appearance; telephone from Fischman; memo to file—2.5 hours."

But we have done our best, and we believe our approximation is correct.

36. Reich's letters, conferences and telephone calls to Fischman (his friend); to Warne, Golub and Marshall (his advisors); to Schwartz, Brandlin, November, Foley, Gilson, Aleschuler, Nidorf and Halperin (attorneys for other stockholders seeking to intervene); surely is not a basis for compensation. It would be indeed ironic if a client could be charged for services of his attorney even though they are calculated to work against that client's interests.

37. Reich's major activities after his discharge by plaintiffs, according to his time record, were confined to efforts to establish that Mittelman and I had been engaged in fraudulent and collusive activities with the defendants and in endeavoring to mastermind the activities of other stockholders to the end that they would employ him either openly or behind the scenes and carry on parallel litigation, for all of which he now seeks compensation from [783] plaintiffs.

38. We have not the slightest doubt that defendants are capable of contesting Reich's extortionate and unconscionable demands upon them. But we cannot remain silent in the face of certain statements therein made by Reich lest our silence be deemed a tacit admission of the truth thereof.

39. It is important to note and emphasize that Reich, in making his claims against defendants, is acting strictly on his own. He is not authorized by

plaintiffs to demand or request any fees. Plaintiffs have refused and still refuse to apply to any court for fees on his behalf for the reasons above stated. Plaintiffs have been reimbursed by defendants to the full extent of any and all claims for fees and reimbursement of expenses. This is evidenced by way of the satisfied judgment of the Nevada Court.

40. Reich seeks compensation from plaintiffs for the very services for which he seeks compensation from defendants; from plaintiffs, approximately \$40,000, and from defendants, \$1,250,000 (by his calculation in Paragraph "21" of his affidavit).

41. In a compound of deliberate distortion of fact and misstatement of legal principles, Reich seeks in ten pages, which, in turn, incorporates 25 more pages of "daily time sheets," to create an atmosphere of sympathy for himself because of his realization of the nature of the self-created dilemma in which he finds himself. He wants fees and he frankly and obviously does not scruple as to how and from whom to get them.

42. In Paragraph "26," line "26" of Reich's affidavit, he would have this Court believe that the sum of \$12,500 was somehow available to him, implying either that RKO or that we had offered to pay him said sum. This is an utter and deliberate distortion calculated to convey to this Court the idea that [784] we or that RKO offered Reich \$12,500. We never offered any such sum to Reich. As appears above we had tried, but only as a cour-

tesy to this Court, and wholly without prejudice, to arbitrate or negotiate with Reich, but without success.

43. In opposing fees to Reich from plaintiffs we have more fully set forth our position, i.e., we owe him nothing; our clients owe him nothing, and the defendants owe him nothing. This Court has no jurisdiction in the matter, and even if it had, it ought not in the exercise of its discretion entertain the application.

44. In passing, we note that Reich's affidavit is devoid of factual matter showing the rendition of compensable legal services. In clear anticipation of the attack on his "but for"-theory of causation, that is, that "but for" his services there would have been no purchase by Hughes of the assets of RKO, Reich urges a legal theory which reflects the fallacious logical doctrine of "post hoc ergo, propter hoc." (Paragraph "20"). It is no coincidence that four sets of New York law firms also representing minority stockholders are also seeking compensation from RKO on exactly the same "but for"-theory of causation and also because their law suits had not yet been dismissed and they reciprocally give no significance to Reich's services in this lawsuit just as he gives none to them or to their lawsuits. They are mutually and reciprocally correct.

45. A word must be added as to Reich's claim to reimbursement for expenses. On May 19, 1953, at a time when he agreed to retire from the case, Reich claimed in writing to us that his disbursements

amounted to \$143.69. We agreed to pay his disbursements when he itemized them for us. This he refused to do. Now he claims total disbursements of \$1,538.65! We believe that we had a right to know for what [785] we were being charged. The more so because of such charges as follows:

1. 11/12/53—Air ticket to Las Vegas—\$39.50.
2. 11/16/53—Expenses re: Las Vegas trip—\$50.00.
3. 12/23/53—Investigation re: service of process—\$150.00.
4. 1/26/54—Expense re: Las Vegas trip—\$50.00.
5. 2/2/54—Investigation re: service of process—\$241.85.
6. And hundreds of dollars on his long distance calls in furtherance of his own personal purposes.

To demand payment from plaintiffs for expenses which he incurred in opposition to plaintiffs' wishes is just unthinkable.

Conclusion

We must apologize to the Court for the length of this affidavit. In truth and in fact we simply did not have the time to shorten it. We received the 125 pages of motion papers from Mr. Silver after he received them from Mr. Reich. (We did not receive any papers directly from Reich.) They arrived in New York on Friday, July 1, 1954, on the eve of a three-day National holiday—no part of

which we have been able to celebrate since this affidavit is required to be filed on or before July 7, 1954, in Los Angeles.

Mr. Reich, on the other hand, had notice of the defendants' motion to dismiss back in April, 1954, approximately three months ago. The date for this hearing was first fixed for April 19, 1954, adjourned to June 28, 1954, and then again to July 12, 1954. Characteristically, we believe Mr. Reich waited until the last possible moment to make his [786] cross-motions, and timed the service of his papers to cause maximum inconvenience and harassment to us. If we seem to reflect annoyance and resentment it is because we have been needlessly deprived of the opportunities to be with our families.

I respectfully pray that Reich's motion (a) for fees and costs against plaintiffs be denied; (b) that his motion for costs and fees against RKO be denied, and (c) that RKO's motion to dismiss with prejudice be granted.

/s/ LOUIS KIPNIS.

Sworn to before me, this 6th day of July, 1954.

/s/ LEONARD BRUNNER,
Notary Public, State of New
York.

Commission expires March 30, 1956.

[Endorsed]: Filed July 7, 1954. [787]

[Title of District Court and Cause.]

AFFIDAVIT OF LOUIS KIPNIS IN OPPOSITION
TO PROPOSED INTERVENTION
BY JULIUS AND ELEANOR NOVEMBER

State of New York,
County of New York—ss.

Louis Kipnis, being duly sworn, deposes and says:

1. I am the attorney for the plaintiffs above named, and the only attorney herein with respect to whom the conventional relationship of attorney and client exists. Messrs. Mittelman and Silver are associated with me in the above-entitled action.
2. I incorporate by reference my own affidavit heretofore submitted in opposition to said motion, subscribed and sworn to March 23, 1954.
3. In addition, the attention of this Court is called to the fact that on the hearing held in Nevada on March 23, 1954, the Novembers appeared and were represented by [789] Thomas A. Foley, Esq., of Las Vegas, Nevada, and who appeared according to the transcript of the record, to be the attorney for intervenors Julius and Eleanor November.

4. By reason of their appearance, said proposed intervenors Julius and Eleanor November are bound by the judgment of the Eighth Judicial District Court of the State of Nevada, in and for the

County of Clark, and are consequently barred from intervention into this case.

5. In view of the facts and circumstances set forth herein and in my other affidavit, I respectfully submit that the motion for intervention by Julius and Eleanor November should be denied.

/s/ LOUIS KIPNIS.

Sworn to before me this 6th day of July, 1954.

[Seal] /s/ AARON SCHWARTZ,
 Notary Public, State of New
 York.

Term expires March 30, 1956.

Affidavit of Service by Mail attached.

[Endorsed]: Filed July 8, 1954. [790]

[Title of District Court and Cause.]

SUPPLEMENTAL AFFIDAVIT OF
LOUIS KIPNIS

State of New York,
County of New York—ss.

Louis Kipnis, being duly sworn, deposes and says:

Following the mailing to Mr. Silver of my main affidavit in opposition to Reich's motions, it occurred to me that I have the solution as to who one of the unidentified conferees with Reich in New York in September, 1953, is. In my main affidavit,

p. 16, para. 25, I identified every person enumerated by Reich except one "Harry." It is my conclusion that Harry is none other than Harry Rosenthal, one of the proposed intervenors in this case. The reason for my conclusion is that the conferees included Gelfand, who is Harry Rosenthal's New York lawyer, and a telephone communication from Brandlin, who is Harry Rosenthal's California lawyer. [792] The other entries on the time sheet would seem to confirm my conclusion that "Harry" is Harry Rosenthal.

The only other item which I wish to clarify appears in my main affidavit on p. 12, l. 24. This Court will recall that the Rosenthal motion for intervention came up for hearing before it on October 19, 1953. Prior to the return day thereof, we caused to be served a cross-motion for multiple relief as follows: (a) staying the Rosenthal motion until their depositions could be taken, (b) enjoining Reich from acting as alleged counsel in the case, (c) substituting Reich, (d) admitting me as lead counsel for plaintiffs, (e) quashing the notice served by Reich to take Mr. Hughes' deposition, and (f) for such relief as is proper in the premises. In my main affidavit, on p. 12, para. 29, I refer to our motion for substitution as though it were a separate and distinct motion. And, I asked leave of this Court to withdraw it since a granting of the motion of RKO would render it moot. In view of the fact that the prayer for relief by way of substituting Reich is but an incident in my

aforesaid cross-motion for multiple relief, I do not wish the impression to remain that I am withdrawing the prayer for the other relief. On the other hand, perhaps in order to avoid any misunderstanding whatsoever, I respectfully ask this Court to disregard the following sentence in my main affidavit: "Indeed, we respectfully request this Court to permit us to withdraw said motion and we herewith do so move." (P. 12, l. 24.)

In other words, as things stand now, I am not withdrawing my cross-motion of October 19, 1953.

/s/ LOUIS KIPNIS.

Sworn to before me this 6th day of July, 1954.

[Seal] /s/ AARON SCHWARTZ,
Notary Public, State of New
York.

Term expires March 30, 1956.

Affidavit of Service by Mail attached.

[Endorsed]: Filed July 8, 1954. [793]

[Title of District Court and Cause.]

REPLY AFFIDAVIT OF BERNARD REICH
State of California,
County of Los Angeles—ss.

Bernard Reich, being first duly sworn, deposes and says:

1. While attending a conference in San Francisco as a lawyer delegate I was served at my office with the following papers and on the dates indicated:

(a) On July 7, 1954: Supplemental affidavit of Louis Kipnis, dated July 6, 1954; Memorandum of Points and Authorities in Opposition to the fee applications of Reich; also re RKO's Motion to Dismiss, filed by Messrs. Kipnis and Mittelman; Affidavit of Louis Kipnis in Opposition to Proposed Intervention, dated July 6, 1954; Affidavit of Louis Kipnis regarding Motion for Security for Costs, dated July 6, 1954; Reply Memorandum of [795] Points and Authorities in Support of Motion to Dismiss with Prejudice, filed by RKO; Affidavit of Louis Kipnis in Opposition to Motion for Fees and Costs, etc., filed by Messrs. Kipnis and Mittelman, dated July 6, 1954; Memorandum of Points and Authorities of RKO in Opposition to Application of Bernard Reich for Fees from "Defendants Other Than Bank."

(b) On July 6, 1954, there was left at my office Subpoena with command that I bring Items I through XIV, as listed in attached Exhibit A, consisting of five and one-half pages.

2. On my return to the office Saturday, July 10, 1954, I had time only to read the said documents.

3. My papers in opposition to the motion to dismiss and papers in support of my motions returnable July 12, 1954, were served by mail on June 28, 1954, and were received by local counsel for the defendants and purported counsel for the plaintiffs apparently on Tuesday, June 29th, 1954, some fourteen days before the return date of July 12, 1954.

4. Defendant RKO makes no complaint with

respect to the time of service of my papers. On the other hand Mr. Kipnis makes a point that he did not receive the papers from his local counsel here until just before the July 4th week end. In this connection I wrote to local counsel for the defendant RKO, on June 9, 1954, that the proposed date of July 12, 1954, was not convenient to me, although I could be ready if necessary. I sent a copy of the letter to all counsel, including Messrs. Kipnis and Mittelman, but on June 14, 1954, I received a letter from local counsel for the defendant RKO that he was sorry to advise me that counsel on their side was not willing to continue the hearing date and insisted on the July 12th date.

5. I require time within which to answer the various papers which were served on me on July 7th, 1954. Also inasmuch as the [796] Subpoena left at my office indicates that the defendant RKO wishes to take testimony, I too wish to take testimony and of the following persons: Howard R. Hughes, Louis Kipnis, Leo B. Mittelman, Tom Slack, Eli B. Castleman, Marion V. Castleman, Louis Feuerman, and others. Before the hearing at which these persons are made to testify I would like to take their depositions. All of this assumes, however, that this Court intends to hold hearings to take testimony.

6. Even if I had the time to answer the various affidavits of Louis Kipnis, I would be loathe to do so. It has not been my policy in this case to follow Mr. Kipnis in his diversionary tactics. I am certain

this his technique is obvious, that is, "don't deny, attack and raise smokescreens." I intend to fight the fire, not the smoke. Mr. Kipnis' affidavits are essentially false and scurrilous. I have had occasion to answer them before and have denied them, including his charge that I hospitalized myself to avoid appearance before Judge McNamee. This being his most serious charge, I say again that I was not hospitalized, repeat not, on the date of the hearing in Las Vegas; nor did I represent to Judge McNamee that I was. I did not appear in Las Vegas, not because I was ill, but because I did not choose to. I have already stated my reasons for not appearing in Las Vegas.

7. Again I refuse to go down the byways and shady lanes which Mr. Kipnis would have me go down in order to deny point by point his so-called defenses to the allegations I have made. Suffice it to say that I have done what I considered it to have been my duty to do along the lines suggested by the Chief Judge of this Circuit. I stand on my record as an attorney before the courts.

/s/ BERNARD REICH.

Subscribed and sworn to before me this 10th day of July, 1954.

[Seal] /s/ HELEN SPARKMAN,
Notary Public in and for the County of Los Angeles, State of California.

Affidavit of Service by Mail attached.

[Endorsed]: Filed July 12, 1954. [797]

[Title of District Court and Cause.]

MINUTES OF THE COURT—JULY 12, 1954

Present: Hon. Ben Harrison,
District Judge.

Local Counsel for Plaintiff and Proposed
Intervenors: Bernard Reich.

Counsel for Plaintiffs: Robert Silver.

Counsel for Defendant, RKO Radio Pict.,
Inc.: Guy Knupp and Roy W. Mc-
Donald.

Proceedings for Hearing:

(1) Motion of plaintiffs to vacate in part order docketed and entered Jan. 12, 1954, and for other relief;

(2) Application of plaintiffs for leave to take the deposition of Howard R. Hughes; pursuant to motion, notice, memo. of points and authorities, and affidavit of Bernard Reich, and notice of intention to apply for a deposition of Howard R. Hughes, filed Feb. 4, 1954;

(3) Further hearing motion of Bernard Reich, Esq., local attorney of record for the plaintiffs, for appointment of a Special Master, pursuant to Rule 53 of FRCP, and pursuant to motion, affidavit of Bernard Reich, filed Nov. 16, 1953, and renote of hearing, filed March 11, 1954;

(4) Motion of plaintiffs and the proposed intervenors, Julius November and Eleanor November,

to add and join parties plaintiff, or for leave to intervene, pursuant to motion, petition, affidavit of Bernard Reich, and memo. of points and authorities, and notice, filed March 11, 1954;

(5) Motion of plaintiffs to quash depositions noticed by Louis Kipnis, Leo B. Mittelman, and Robert Silver, Esqs., purported attorneys for plaintiffs, as noticed April 9, 1954, of witnesses, Benj. F. Schwartz, et al., pursuant to notice, motion, affidavit of Bernard Reich, and memo. of points and authorities, filed April 15, 1954;

(6) Motion of def't RKO Radio Pictures, Inc., for dismissal of this action, with prejudice, pursuant to notice, motion, points and authorities, and affidavit, filed April 7, 1954, and orders of continuance;

(7) Motion of Bernard Reich, attorney for plaintiffs, filed June 28, 1954, for counsel fees and costs from plaintiffs;

(8) Motion of Bernard Reich, attorney for plaintiffs, and proposed intervenors, filed June 28, 1954, for counsel fees and costs from defendants other than the Chase National Bank.

Attorney McDonald makes a statement, and Attorney Reich makes a statement.

It Is Ordered that cause be submitted on briefs to be filed 7 x 7.

EDMUND L. SMITH,
Clerk. [799]

[Title of District Court and Cause.]

AFFIDAVIT OF BERNARD REICH

State of California,
County of Los Angeles—ss.

Bernard Reich, being duly sworn, deposes and says:

1. Since June 23, 1954, the last date on Exhibit A attached to the "Affidavit of Bernard Reich in Support of Motion for Counsel Fees and Costs Against the Defendants," the time expended by my office in this action is set forth in Exhibit "C" attached hereto.

2. Since said Affidavit I have expended the sum of \$11.72.

/s/ BERNARD REICH.

Subscribed and sworn to before me this 16th day of July, 1954.

[Seal] /s/ HELEN SPARKMAN,
Notary Public in and for the County of Los Angeles, State of California. [800]

EXHIBIT C

Daily Time Sheets

Date	Nature of Services	Time
	Total carried forward from Exhibit "A" ..	648.0
1954		
6/24	Checked papers; Misc.	2.
6/25	Telephone to and from Selvin (2); Conference Selvin; Misc.	3.
6/28	Letter from Selvin; Revised papers and filed; Misc.	2.5
6/30	Telephone from Knupp .....	.3
7/10	Read affidavits, etc.; Subpoena; Dictated Reply Affidavit	3.
7/12	Court appearance Judge Harrison....	7.
7/13	Letter to Selvin; Research; Dictated draft of argument	3.5
7/14	Dictated balance of draft of Argument; Revised draft; Dictated Affidavit and exhibit	2.5
6/23 to		
7/16	Research by Paul Selvin	16.
7/15	Revised and checked papers re written argument; Received copy of letter from McDonald; Letter to Judge Harrison; Tel. from Selvin; Misc.....	2.5
7/16	Tel. from Selvin; Research; Revised and checked papers; Misc.....	2.
	Total Time Recorded	692.3

[Endorsed]: Filed July 16, 1954. [801]

[Title of District Court and Cause.]

MINUTES OF THE COURT—AUG. 5, 1954

Present: Hon. Ben Harrison,
District Judge.

Counsel for Plaintiffs: No appearance.

Counsel for Defendants: No appearance.

Proceedings:

The motion of def't RKO Radio Pictures, Inc., to dismiss, heretofore submitted, is ordered granted in accordance with Memorandum of Court filed this day.

Notified local counsel by mailing copy of Memo. of Court to them, as follows:

1. Mitchell, Silberberg & Knupp.
2. Bernard Reich.
3. Robert Silver.
4. Thos. A. Slack.

EDMUND L. SMITH,
Clerk;

By MURRAY E. WIRE,
Deputy Clerk. [803]

[Title of District Court and Cause.]

MEMORANDUM GRANTING MOTION TO DISMISS

This case is one of several shareholders' derivative actions filed in both state and federal courts throughout the United States involving alleged injury to the same corporation at the hands of the same corporate officers. [For a detailed history of the events giving rise to this litigation see Schiff v. R.K.O. Pictures Corp., 104 A. 2d 267 (1954).]

Defendant R.K.O. Radio Pictures, Inc., has made a motion to dismiss this action with prejudice. The occurrence of two events since the institution of this action compels that this motion be granted.

First, a sale of all of the assets of the corporation on behalf of which this action was brought to the corporate officer who is the alleged principal wrongdoer has been consummated. The terms of the contract of that [804] sale provide that all causes of action held by the corporation against any person including that particular officer are to be a part of the assets sold. The validity of this sale has been upheld by the Delaware Chancery Court. [Schiff v. RKO, supra.] The effect of that sale is to render this action moot.

Second, that action involving the same issues which are or would be present here instituted in a Nevada state court has gone to judgment on all of these issues. That judgment must be given the effect of res judicata by this court.

The motion of local counsel, Bernard Reich, for attorney's fees and costs must be denied. Local counsel was employed to bring this action by New York counsel for plaintiff-shareholders Castleman. Employing counsel has been the recipient of an award of attorney's fees made in the Nevada action heretofore referred to. Local counsel must look to his employer and not to this court for his fee. Even if this were not the case this court could not make an award of fees to local counsel because the Nevada court has held that no counsel representing plaintiffs Castleman in actions pending elsewhere is entitled to any fee other than that allowed by it.

Dated: This 5th day of August, 1954.

/s/ BEN HARRISON,
Judge.

[Endorsed]: Filed August 5, 1954. [805]

[Title of District Court and Cause.]

MINUTES OF THE COURT—SEPT. 1, 1954

Present: Hon. Ben Harrison,
District Judge.

Counsel for Plaintiffs: No appearance.

Counsel for Defendants: No appearance.

Proceedings:

It Is Hereby Ordered that this cause be placed on the calendar of Sept. 27, 1954, 10 a.m., for hear-

ing by the Court on the objections to proposed final judgment.

The clerk is directed to notify local counsel.

Mailed notices of said hearing to following counsel:

(1) Bernard Reich, 328 S. Beverly Drive,
Beverly Hills, Calif.

(2) Mitchell, Silberberg & Knupp, 6399 Wilshire Blvd., L. A. 48, Calif.

(3) Robert Silver, 139 S. Beverly Dr., Beverly Hills, Calif.

(4) T. A. Slack and Raymond A. Cook, 7000 Romaine, Hollywood, Calif.

EDMUND L. SMITH,
Clerk;

By MURRAY E. WIRE,
Deputy Clerk. [806]

[Title of District Court and Cause.]

MINUTES OF THE COURT—SEPT. 27, 1954

Present: Hon. Ben Harrison,
District Judge.

Counsel for Plaintiffs: Bernard Reich
(local counsel for plfs.), Robert Silver
for plfs.

Counsel for Defendants: Guy Knupp for
RKO Radio Pictures, Inc.

Proceedings:

For hearing objections to proposed final judgment, pursuant to order fixing date of hearing and notice by clerk 9/1/54.

Attorney Reich makes a statement to the Court in support of allowance of attorneys' fees.

Court makes a statement. Attorney Reich makes a further statement. Attorney Knupp makes a statement. The Court makes a further statement that it will later sign final judgment as presented.

Later, final judgment is signed and ordered filed and entered.

EDMUND L. SMITH,
Clerk;

By MURRAY E. WIRE,
Deputy Clerk. [807]

In the District Court of the United States, Southern
District of California, Central Division

No. 14,848-BH

ELI B. CASTLEMAN, et al.,

Plaintiffs,

vs.

HOWARD R. HUGHES, et al.,

Defendants.

FINAL JUDGMENT

On the 12th day of July, 1954, came on to be heard:

A. The motion of the defendants, RKO Radio Pictures, Inc., to dismiss this action, with prejudice.

B. The motion of Bernard Reich, Esq., that the Court determine and enter judgment in favor of Bernard Reich, Esq., for attorney's fees and costs against the defendants other than The Chase National Bank.

C. The motion of Bernard Reich, Esq., that the Court determine and enter judgment in favor of Bernard Reich, Esq., for attorney's fees and costs against the plaintiffs Eli B. Castleman, et al. [808]

The movants RKO Radio Pictures, Inc., and Bernard Reich, Esq., appeared generally on such motions on July 12, 1954, and argued the same orally and by written memoranda;

The Court having heard and considered such oral

and written arguments upon the respective motions, and having on the 5th day of August, 1954, filed its memorandum opinion with respect to such motions,

It is Ordered, Adjudged and Decreed that this cause be and the same hereby is dismissed with prejudice.

It is further Ordered, Adjudged and Decreed that each of the aforesaid motions of Bernard Reich, Esq., that this Court enter judgment in his favor for attorney's fees and costs be and the same is hereby denied.

Dated this 27th day of September, 1954.

/s/ BEN HARRISON,
Judge.

Approved as to Form:

LOUIS KIPNIS, LEO B. MITTELMAN AND
ROBERT SILVER,

By /s/ ROBERT SILVER,
Attorneys for Plaintiffs.

DONOVAN, LEISURE,
NEWTON & IRVINE;
MITCHELL, SILBERBERG &
KNUPP,

By /s/ GUY KNUPP,
Attorneys for Defendant,
RKO Radio Pictures, Inc.

Disapproved as to Form, 8/23/54:

/s/ BERNARD REICH,
Atty. for Plaintiffs.

[Endorsed]: Filed September 27, 1954.

Docketed and entered September 27, 1954. [809]

[Title of District Court and Cause.]

NOTICE OF APPEAL

To the Clerk of the Above-entitled Court:

Notice Is Hereby Given that plaintiffs, Eli B. Castleman, and Marion V. Castleman, doing business as Wolverine Textile Company, and Louis Feuerman, proposed interveners, Julius November and Eleanor November, and Bernard Reich, hereby appeal to the United States Court of Appeals for the Ninth Circuit from the whole and each part of the Final Judgment entered in this action on September 27, 1954.

Dated: October 1, 1954.

/s/ BERNARD REICH,
Attorney for Plaintiffs, Proposed Interveners, Julius November and Eleanor November, and in Pro Per.

Affidavit of service by mail attached.

[Endorsed]: Filed October 4, 1954. [810]

In the United States District Court, Southern District of California, Central Division

No. 14,848-BH

Honorable Ben Harrison, Judge Presiding.

ELI B. CASTLEMAN and MARION V. CASTLEMAN, Doing Business as WOLVERINE TEXTILE COMPANY, and LOUIS FEUERMAN,

Plaintiffs,

vs.

HOWARD R. HUGHES, RKO PICTURES CORPORATION, RKO RADIO PICTURES, INC., and THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK,

Defendants.

REPORTER'S TRANSCRIPT OF
PROCEEDINGS

Monday, October 5, 1953

Appearances:

For the Plaintiffs:

BERNARD REICH, ESQ.,
LOUIS KIPNIS and
LEO B. MITTELMAN; By
BERNARD REICH, ESQ.
HERBERT HERZBRUN, ESQ.

For Defendant RKO Radio Pictures Corp.:

MITCHELL, SILBERBERG & KNUPP,
and

DONOVAN, LEISURE, NEWTON &
IRVINE, By
GUY KNUPP, ESQ.

RAYMOND A. COOK,
Appearing Amicus Curiae.

Monday, October 5, 1953, 10:00 A. M.

The Court: You may proceed.

The Clerk: Castleman vs. Howard R. Hughes.

Motion of plaintiff to vacate order.

Mr. Reich: Ready for the moving party.

The Court: I will hear you.

Mr. Reich: Now?

The Court: Yes, now.

Mr. Reich: Is this with reference to the motion
for amicus curiae?

The Court: The whole thing.

Mr. Reich: All right.

Mr. Cook: If the court please, I have this motion
pending with reference to appearing as amicus
curiae but I think until the court grants that or
rejects it I have no standing to appear on the merits
of the motion. I will be glad to explain to the court
why I am appearing in this fashion.

The Court: You are sure you are not invading
the jurisdiction of the court?

Mr. Cook: No. It is only this, that Mr. Reich
does not question the fact that this action has been

dismissed properly in all respects as to the defendant Hughes.

Mr. Reich: I do dispute that very much.

Mr. Cook: All right.

The Court: Counsel, just a moment. I understood that the motion to dismiss as to Hughes there was no question about.

Mr. Reich: There is a question about it. I am moving to vacate the order of June 26, 1953, which includes, your Honor, the dismissal against Hughes.

The Court: Let us get things straight. I am not going to dismiss as to Hughes as to that date. It seems to me that your motion as to the others, those that were dismissed, I think inadvertently, should be vacated but I don't think it should be dismissed as to Hughes. You had proper notice of that.

Mr. Reich: There was no dismissal of Hughes. I direct your Honor's attention to the order—

Mr. Cook: Again if I may interject this, assuming that Mr. Hughes is not in this cause presently I know of no way I can appear before the court except as a friend of the court and of course I am not privileged to do that without moving the court and—

The Court: I think the court will be able to take care of itself, counsel.

Mr. Reich: On the point that your Honor raised, I am now reading from the order of June 26:

"On the 8th day of June, 1953, came on to [3*] be heard the motion of the defendant, Howard R.

*Page numbering appearing at top of page of original Reporter's Transcript of Record.

Hughes, to dismiss the action, or in lieu thereof to quash the return of service of summons; and it appearing to the court by uncontraverted affidavit that the defendant, Howard R. Hughes, became a resident of the State of Nevada long prior to the period material hereto."

I note there is no time in that order and your Honor still doesn't know from any of the papers in this case when Mr. Hughes removed himself from the jurisdiction of this court.

"It is therefore ordered and decreed that the return of service of summons as to the defendant, Howard R. Hughes, be and the same is hereby quashed."

That is not a dismissal of the action against Mr. Hughes. The order goes on:

"It further appearing to the court by the record in this action that there is another action pending in the State of Nevada in which the same plaintiffs herein are the plaintiffs, and in which additional necessary defendants are joined, with all parties properly before the court; that such action is being actively prosecuted before that court; and that the relevant Nevada rules of civil procedure are identical with the Federal Rules of Civil [4] procedure governing actions of this type."

And there is no allegation that this action in California was filed before the Nevada action, your Honor.

"It is, accordingly, further ordered and decreed that this action be, and the same is hereby dismissed without prejudice, the taxable costs of court

exclusive of attorneys' fees to be adjudged against the plaintiffs in the within action."

So the action was dismissed against Mr. Hughes as distinguished from quashing the service. It was dismissed on the ground that there is a Nevada action pending.

Furthermore I say that the motion——

The Court: Just a moment. You don't need to get so worked up and excited in this court because I know the background of this case. This is just a fight between attorneys for attorney fees and I am not very much interested in it, counsel. I am interested more in the litigation not because attorneys want to get their fingers in the pie.

Mr. Reich: And the order goes on and says "approved as to form" and that is signed by an attorney who is not an attorney of this Bar and who has never even been admitted to practice here for the purpose of this case.

It also bears the name of Herbert Herzbrun who never appeared in this case and who didn't even sign this order and then the rest of the defendants—I am the attorney of [5] record for the plaintiff in this case. There is no other attorney.

The Court: Just a moment. Apparently it wasn't dismissed as to Hughes. The service was quashed and I think I will vacate the order except that part that quashes the service as to the defendant Hughes and then I will let the attorneys fight it out.

Mr. Reich: Well, may I be heard on that point, your Honor?

The Court: No, I don't care to hear from you.

I am rather disgusted with this whole thing. I don't think your part of this case is any credit to the Bar of this court.

Mr. Reich: I ask to be heard on that point, your Honor.

The Court: I don't care to hear you. I will set aside the order, as far as the order of dismissal is concerned, and we will take up the other problems when they come up.

Mr. Reich: Your Honor, your Honor does not want to hear from me on that at all? Your Honor challenged me personally. You said you didn't like my part in this case.

The Court: You know I received a letter from your correspondent in New York saying you didn't have any right in this case and they tried to fire you and they couldn't.

Mr. Reich: Your Honor, you had a part in making these rules in 1944. You made these rules about counsel appearing in a case. May I merely direct your attention to the rule [6] your Honor, and also to the conference of judges that was held in June with regard to this very matter.

The Court: Counsel, I don't care to hear any lecture from you.

Mr. Reich: I don't want to lecture you, your Honor.

The Court: I have made my ruling.

Mr. Reich: Your Honor, there are attorneys present here who have known me for a long time. In open court you have challenged my part in this

case. I think you have cast aspersions on me and I ask the opportunity to speak on the point.

The Court: Well, go hire a hall. I don't care to hear from you. Counsel will prepare the appropriate order.

Mr. Reich: Which counsel?

The Court: You made the motion. I granted the motion.

(The above-entitled matter was concluded.)

[Endorsed]: Filed October 4, 1954. [7]

[Title of District Court and Cause.]

REPORTER'S TRANSCRIPT OF
PROCEEDINGS

Monday, October 19, 1953

Appearances:

For the Plaintiffs:

LOUIS KIPNIS, ESQ.,
BERNARD REICH, ESQ.

For Defendant RKO Radio Pictures, Inc.:

MITCHELL, SILBERBERG & KNUPP,
By GUY KNUPP, ESQ.

For Appellants for Intervention:

J. J. BRANDLIN, ESQ.

* * *

The Court: May I say just a word? Counsel has done a lot of talking on both sides in this case, but as far as this court is concerned it is going to put this case to [12] sleep until the Nevada case is determined.

I am not going to hear it and I am not going to do anything with it that I don't have to do.

This case is pending in Nevada and I understand it is at issue over there. They are taking depositions and they are getting ready for trial. I know Judge McNamee. He is a very able man and a very scholarly man and I think as long as they have started through the wringer over there and that court has jurisdiction of the parties, I am not going to bother with this mess.

You can fire him or not, or he can just sit here and wait. If I don't die or old age first maybe he will.

Mr. Kipnis: There is only one thing that is troubling me, your Honor.

Mr. Reich: Me or Judge McNamee?

The Court: You.

Mr. Kipnis: Mr. Reich is worried and concerned about the stockholders. It is going to cost a heck of a lot of money—

The Court: Counsel, I am not worrying about the stockholders. I have recognized and I have stated before that the whole group of you are interested only in lawyers fees and that is all you are interested in, and to win your case.

You are going to get attorney fees but if any attorney fees are fixed in this court they are going to be mighty [13] small if I ever get around to fixing attorney fees. You will wish that you had never hit this court, any of you, because I think that if there is any recovery that comes through this court the stockholders are going to get the benefit of it because I feel this case is primarily a lawyer's case all the way through. And I think the entire group is interested only in attorney fees. You are more interested in attorney fees than you are in the stockholders, who are scattered all over the country I suppose.

I don't know how many shares of stock Castleman owns in this case——

Mr. Kipnis: 2500.

The Court: A pretty good investment.

Mr. Reich: May I address the court for just a few minutes? I promise to be very brief.

The Court: Yes. It doesn't do any good to get into an argument with you.

Mr. Reich: I will stipulate that my fees may be small. I will stipulate you don't have to fix fees at all.

The Court: You don't have to so stipulate.

Mr. Reich: Your Honor, it is important that my position be stated.

The Court: I think I understand your position. And I think if they want to fire you out of the case they should pay you for what services you have rendered. If they won't [14] let you finish your contract I think like anything else, you should be paid

a reasonable fee for your services. But I would dislike very much to be holding onto a case when the client wants to fire me.

Mr. Reich: Assume that you are practicing law instead of occupying the bench and assume—

The Court: If I had been practicing law this case wouldn't have been here.

Mr. Reich: Well, your Honor, if you had information that I have—assuming that you had certain information which led you to believe that the stockholders weren't being properly represented wouldn't you feel it was your duty to the court to apprise the court after you had tried to have an understanding with counsel on the other side so that he does represent the clients.

I haven't come to this court. I have been brought into this court. This action was dismissed, your Honor, without my knowledge. Certainly you would have felt the duty as a lawyer as I did to set the record straight—that you had nothing to do with that, particularly if you felt that the roof may fall on top of these plaintiffs' attorneys—that the truth may come out and you didn't want to have anything to do with it.

You would have to come to court just as I did, I am sure, your Honor, and move to vacate a dismissal which had [15] been inadvertently obtained without the only local responsible attorney of record even knowing about it.

The Court: I think you lawyers should get together in an arena of your own and fight it out and settle this case between the lawyers as to who is who

in the case without intervention on my part. It is a spectacle to find lawyers fighting among themselves. It doesn't bring any credit upon anybody.

Mr. Reich: Well, your Honor, what would you do about it? What could I do about it? You advise me and I will do it. I just want to do what is right. You tell me what to do and I will do it.

The Court: I am not telling you what to do. [16]

* * *

The Court: I know what counsel has brought up. I still stand by my assertion that this is a lawyer's fight. I pity the stockholders if there is any recovery. I wish I had the fixing of the fees. If I did I know no one would want to try the case in my court because I would certainly see that [33] the stockholders got whatever recovery there is. But I wouldn't have very much to go on. There is nothing here to indicate that the stockholders are worrying a great deal. Not nearly as much as the lawyers.

You say that trial commences January 4th?

Mr. Kipnis: Yes.

The Court: I will continue this to December 28th and I wish to state that I shall probably continue it from time to time until the Nevada case is completed.

Mr. Kipnis: May I make a request about the time? I am not going to argue again. I merely want to make a request with reference to that date, your Honor. That happens to be my birthday and my daughter's birthday—they are all within that time. I have a sick mother at home and I would like to

get back there. As I say it is my daughter's birthday and it is my birthday and it is because of that that I ask you to fix some other time.

The Court: Counsel, it will not be necessary for you to be present. I will not do anything on that date. I am simply going to continue the case from time to time until the Nevada case is completed.

Mr. Kipnis: Well, we are faced with this problem. Mr. Reich is serving notice that he is the attorney—

Mr. Reich: Why are you concerned with the corporation?

Mr. Kipnis: If your Honor will ask me a question I will [34] be delighted to answer it.

The Court: I don't see why you have to worry about it. The California Bar is pretty well represented in this state and why you have to make a trip from New York to appear here seems to me a waste of money, particularly when I am not going to take any action. I am not going to do anything with this case until the Nevada case has been disposed of.

Mr. Kipnis: And it will be res adjudicate after that case is disposed of.

The Court: The whole thing is continued.

May I say one word? I think that Mr. Reich should be eliminated from the case in accordance with the wishes expressed here and I think there should be some adjustment made between the parties.

I don't think that this court should be called upon to fix any fees for his services. It is apparently a

lawyers' case and if you want to get rid of him I think he should be taken care of.

Mr. Kipnis: If he is entitled to anything.

The Court: Well, he has worked on the case.

Mr. Kipnis: I prepared the papers and all he did was bring them over to the court house. Do you call that work?

The Court: That is worth something.

Mr. Kipnis: And that is all he is going to get, if disloyalty and disruption and disgusting behavior is entitled [35] to compensation.

The Court: If you can't agree on fees I will fix them.

[Endorsed]: Filed October 4, 1954. [36]

[Title of District Court and Cause.]

REPORTER'S TRANSCRIPT OF
PROCEEDINGS

Monday, July 12, 1954

Appearances:

For the Plaintiffs:

BERNARD REICH, ESQ.,
ROBERT SILVER, ESQ.

For the Defendants:

MITCHELL, SILBERBERG & KNUPP,
By GUY KNUPP, ESQ.
DONOVAN, LEISURE, NEWTON &
IRVINE, By
ROY W. McDONALD, ESQ.

* * *

Mr. Reich: May it please the court. I first used that form of address, your Honor, on December 14, 1937, before one of Mr. McDonald's courts, the appellate division, First Department, in New York City, "May it please the court."

That was the day after I took the oath as an attorney in the same department and in the same court.

I took the oath again as an attorney in this court before the late Judge O'Connor. I was in uniform. And before I was permitted to wear the uniform of our country, your Honor, I took still another oath and notwithstanding what I heard the court say this morning, that he thought the action should be dismissed and that no award should be made to me, and that while I did a lot of work I brought this all on myself.

I say to your Honor notwithstanding that and sincerely I feel that I have lived up to those oaths that I took and to the spirit of those oaths.

If I go out of this courtroom defeated and routed, for the moment, I would do the same thing all over again. I think I did and complied in this case with what a lawyer is called upon to do and I want to say this, that in this era of fear and fright and subpoenaing of Supreme Court Justices, perhaps even the next President of the United States, more than ever [8*] now I think that the courts of this country are the real bulwark of democracy and as I think I have had occasion to say to this court before, I think the United States Supreme Court opens, and some

*Page numbering appearing at top of page of original Reporter's Transcript of Record.

of the courts here, open with "God Bless this Honorable Court."

I say it too and I say this knowing also what you said this morning, that I am the real optimist in this courtroom because I have faith in the courts of this country.

I heard the Chief Justice in San Francisco say, your Honor, that the poor and the little people needed advocates and lawyers.

I am one of those little people and I represent little people and what this case stands for to me is the attempt to push little people around, and I thank God that I am an attorney and I can practice before these courts and I can be heard and I can state what I know is going on in this case.

Now, in the ordinary case—the ordinary plaintiff, the ordinary defendant, your Honor, the lawyer for either one of the two has the duty which transcends his particular duty to the particular client to be truthful to the court and to abide by his oath. That is true in any case. It is especially true in a class suit where somebody comes to this court with 2500 shares of stock out of 4,000,000 shares of stock and says: "There is an action which I want to bring, not for myself, for my 2500 shares, but for all the stockholders." [9]

I say that the defendants are responsible to the stockholders for thirty-eight and a half million dollars and I say to the court that that individual stockholder does not represent anybody but the class and that he has the duty of representing that class in good faith.

I cited to the court in what I apologize for, a very voluminous set of papers, what this California court has said about stockholder matters—comparing the stockholders to a guardian ad litem—an officer of the court, as it were, and how much more an officer of the court, your Honor, is the attorney for that guardian ad litem. And let me say one other thing, generally speaking. In view of what I have just said it is not necessary, although I can do it, to prove collusion in a stockholders' suit—that is collusion between the defendants and the plaintiff. It is not necessary to prove a sell-out. All that has been proved is that there was not a truly adversary proceeding; that for self-interest the stockholders who purported to represent all the stockholders did not represent them in fact but laid down on the job.

Now you said this morning a lot of work has been done by Mr. Reich but that I brought it upon myself.

Well, I had thought before this morning that the opinions that you had at the outset of this case you had long voiced and that possibly you could have divested yourself of certain opinions which you expressed earlier in the case. [10]

I am concerned now because it would seem, perhaps, that your Honor has not and I want to place in the record if I may, your Honor, as part of these proceedings being held today, what your Honor stated on Monday, October 15, 1953. This is on page 13, line 24.

This is what you said among other things. I am starting on line 24. You said this—I think it was

perhaps to all counsel—maybe not to me alone or perhaps you were saying it to me. You said:

"You are going to get attorney fees but if any attorney fees are fixed in this court they are going to be mighty small if I ever get around to fixing attorney fees. You will wish you had never hit this court, any of you, because I think that if there is any recovery that comes through this court the stockholders are going to get the benefit of it because I feel this case is primarily a lawyers' case all the way through."

And also as part of this record, if your Honor please, on the same date and at page 33 beginning with line 21:

"I know what counsel has brought up. I still stand by my assertion that this is a lawyers' fight. I pity the stockholders if there is any recovery. I wish I had the fixing of the fees. If I did I know no one would want to try the case in my court [11] because I would certainly see that the stockholders got whatever recovery there is."

I feel that what your Honor said this morning is absolutely consistent with what you said on October 19, 1953.

I had hoped, your Honor, that by this late date you would have seen that what I was trying to do had nothing to do with a lawyers' fight as such.

Maybe I was misguided in some way but I thought I owed the court the duty to set forth the facts as I knew them—as Chief Judge Denman thought they should be done in that Independence Coal Mine case.

I say this is not a fight among lawyers except collaterally. It has to be a fight among lawyers if lawyers are going to be participants in the charges that are being made. Obviously lawyers are going to defend themselves in a situation but what I think this case stands for is whether or not the defendants can pick their arena and make the plaintiffs, who represent a small share of stock, do their bidding and then try to hold prior proceedings bound by what was done in Nevada.

Now, there are three principal matters before your Honor today. One is the defendant's motion to dismiss. The other is my motion for fees against [12] RKO.

* * *

But I go further than that, your Honor. I say that in a stockholders suit or in any suit, as a matter of fact, where there is a charge of collusion that charge must be tried.

We will take a divorce case, Williams against North Carolina. Each court has a right to say that the judgment that you obtained out of the state was collusive and therefore we are going to try that issue of collusion.

That is even more the point in a representative stockholders suit when the very rule, 23, was made to make sure there was not collusion.

Now, they have got something there, they think. They say that Judge McNamee found under Rule 23-C that there was no collusion. That ends it. That is like pulling yourself up by your bootstraps.

I charged collusion in this court. I have evidence of the collusion. I have put it in affidavit form.

I have also shown that there wasn't—if I haven't shown collusion I have at least shown, let us put it that way, that there was no truly adversary proceeding in Nevada. The plaintiffs were not trying their best. They were interested in whitewashing Mr. Hughes.

* * *

[Endorsed]: Filed October 4, 1954. [19]

[Title of District Court and Cause.]

CERTIFICATE OF CLERK

I, Edmund L. Smith, Clerk of the United States District Court for the Southern District of California, do hereby certify that the foregoing pages numbered from 1 to 817, inclusive, contain the original Complaint; Amended Complaint; Motion to Dismiss the Action or Quash Return of Service of Summons of Howard R. Hughes with Affidavit in Support; Motion for Security for Expenses of RKO Radio Pictures, Inc., with Affidavit in Support; Stipulation and Order; Order Quashing Return of Service of Summons on Howard R. Hughes and Dismissing Action; Motion to Vacate Order of Dismissal; Affidavit of Bernard Reich in Support of Motion to Vacate Order of Dismissal; Motion to Appeal as Amicus Curiae of Raymond A. Cook with Affidavit in Support; Affidavit of Louis Kipnis, et al., in Op-

position to Motion to Vacate Order of Dismissal; Affidavit of Roy W. McDonald; Affidavit of Bernard Reich in Opposition to Motion and Affidavit of Raymond A. Cook as Amicus Curiae; Affidavit of Bernard Reich in Reply to Affidavit of Louis Kipnis, et al.; Affidavit of Bernard Reich in Reply to Affidavit of Roy W. McDonald; Motion of RKO Radio Pictures, Inc., for Order Dismissing the Action or to Stay All Proceedings, etc., with Affidavits in Support and Copies of Documents in Case No. 59422 in the District Court of the State of Nevada; Cross-Motion and Motion for Certain Relief, etc.; Reasons and Memorandum in Opposition to Notice of Cross-Motion for Certain Relief by Henry Herzbrun, et al.; Affidavit of Leo B. Mittelman in Opposition to Application for Intervention and in Support of Motions; Affidavit of Bernard Reich in Reply to Affidavit of Leo B. Mittelman re Intervention and Cross-Motions; Motion for Appointment of Special Master Pursuant to Rule 53, etc., with Affidavit in Support; Affidavit of Louis Kipnis in Opposition to Motion for the Appointment of a Special Master Under Rule 53, etc.; Affidavit of Bernard Reich in Reply to Affidavit of Louis Kipnis; Order Vacating Order of Dismissal of Action, Plaintiffs' Proposed (not signed); Order Vacating Order Dismissing Action; Motion to Vacate in Part Order Entered January 12, 1954, and for Other Relief with Affidavit in Support; Notice of Intention to Apply for Deposition of Howard R. Hughes; Affidavit of Louis Kipnis; Reply of Defendant Howard R. Hughes to Plaintiffs' Motion to Vacate; Re-

notice of Motion for Appointment of Special Master; Motion to Add and Join Parties Plaintiff or for Leave to Intervene of Julius November, et al., with Notice, Petition and Affidavit in Support; Affidavit of Louis Kipnis in Opposition to Motion to Add and Join Parties Plaintiff or for Leave to Intervene; Affidavit of Bernard Reich in Support of Motions Returnable March 29, 1954; Motion to Dismiss with Prejudice of RKO Radio Pictures, Inc.; Affidavit of Roy W. McDonald in Support of Motion to Dismiss with Prejudice; Affidavit of Julius November; Affidavit of Louis Kipnis; Affidavit of George Benedict, Jr., in Support of Motion to Dismiss with Prejudice with Copies of Documents in Case No. 59422 in the District Court of the State of Nevada; Second and Third Affidavits of George Benedict, Jr., in Support of Motion to Dismiss with Prejudice with Copies of Documents in Case No. 491 in the Court of Chancery of the State of Delaware; Affidavit of Bernard Reich in Opposition to Motion to Dismiss; Motions of Plaintiffs' Attorney for Counsel Fees and Costs from Plaintiffs and from the Defendants other than Bank with Supporting Affidavits; Notice of Hearing of Motions (2) for Fees and Costs; Affidavit of Louis Kipnis in Opposition to Motion for Fees and Costs as Against Plaintiffs, etc.; Affidavit of Louis Kipnis in Opposition to Proposed Intervention by Julius November, et al.; Supplemental Affidavit of Louis Kipnis; Reply Affidavit of Berndard Reich; Affidavit of Berndard Reich; Memorandum Granting Motion to Dis-

miss; Judgment; Notice of Appeal; and Designation of Record on Appeal and a full, true and correct copy of the Minutes of the Court for February 9, March 2, April 13 and 27, June 8, October 5 and 19, November 30, December 14 and 29, 1953, and January 11, February 15, March 24, April 19, May 17, June 28, July 12, August 5 and September 1 and 27, 1954, which, together with Reporter's Transcript of Proceedings on October 5 and 19, 1953, and July 12, 1954, transmitted herewith, constitute the transcript of record on appeal to the United States Court of Appeals for the Ninth Circuit.

I further certify that my fees for preparing and certifying the foregoing record amount to \$4.00 which sum has been paid to me by appellants.

Witness my hand and the seal of said District Court this 29th day of October, A.D. 1954.

[Seal]

EDMUND L. SMITH,
Clerk;

By /s/ THEODORE HOCKE,
Chief Deputy.

[Endorsed]: No. 14,573. United States Court of Appeals for the Ninth Circuit. Eli B. Castleman, Marion V. Castleman, Louis Feuerman, Julius November, Eleanor November, and Bernard Reich, Appellants, vs. Howard R. Hughes, RKO Pictures Corporation, RKO Radio Pictures, Inc., The Chase National Bank of the City of New York, Eli B. Castleman, Marion V. Castleman and Louis Feuerman, Appellees. Transcript of Record. Appeal from the United States District Court for the Southern District of California, Central Division.

Filed November 1, 1954.

/s/ PAUL P. O'BRIEN,

Clerk of the United States Court of Appeals for the
Ninth Circuit.

In the United States Court of Appeals
for the Ninth Circuit

No. 14,573

ELI B. CASTLEMAN and MARION V. CASTLE-
MAN, Doing Business as WOLVERINE TEX-
TILE COMPANY, and LOUIS FEUERMAN,
JULIUS NOVEMBER and ELEANOR NO-
VEMBER and BERNARD REICH,

Appellants,

vs.

HOWARD R. HUGHES, RKO PICTURES COR-
PORATION, RKO RADIO PICTURES,
INC., and ELI B. CASTLEMAN and MAR-
ION V. CASTLEMAN, Doing Business as
WOLVERINE TEXTILE COMPANY, and
LOUIS FEUERMAN,

Appellees.

APPELLANT'S STATEMENT OF POINTS

To the Clerk of the Above-Entitled Court, the Ap-
pellees and Their Attorneys:

Prefatory Statement

Appellants have designated the portions of the record for printing with a view to curtailing what otherwise would prove to be a most cumbersome record.

Anything which does not relate directly to appellants' points has not been designated. For example,

where appellants' point is that the trial court has not acted on a motion, only the motion and the supporting affidavit has been designated and not the opposing or reply affidavits. For another example, where appellants' motion was granted, no opposing or reply affidavits have been designated, since appellees did not cross-appeal.

Moreover, omissions were impelled by the fact that the papers filed just prior to judgment more or less repeat allegations made in earlier papers.

If, however, appellees designate additional papers for printing (at their expense), appellants respectfully request the privilege of making further designations to round out and complete the record (at the latter's expense).

Statement of Points

The following is a concise statement of points on which appellants intend to rely on the appeal herein.

I.

The trial court erred in granting the motion to dismiss.

II.

The trial court erred in denying the motions (2) for counsel fees and costs as against the defendants (other than the bank) and as against the plaintiffs.

III.

The trial court erred in impliedly finding and ruling that the final judgment in the Nevada action

was res judicata and compelled dismissal of the action herein.

IV.

The trial court erred in impliedly finding and ruling that the Delaware action rendered the action herein moot and compelled its dismissal.

V.

The trial court erred in putting motions herein-after described off calendar, continuing them, and failing eventually to rule on them, when it should have granted them. These motions included:

1. Motion to Vacate in Part Order Entered January 12, 1954.
2. Motion for Appointment of Special Master.
3. Motion for Leave to Take the Deposition of the Defendant Hughes.
4. Motion to Add and Join Parties Plaintiff or for Leave to Intervene.

VI.

The trial court erred in that its acts and omissions as claimed in the previous point herein stayed in effect the action below, pending determination of the later filed Nevada action, when a direct and formal stay would have constituted an abuse of discretion.

VII.

The trial court erred with respect to its order of January 12, 1954, in that

- (a) it did not grant all of plaintiffs' Motion to Vacate Order of Dismissal Made June 26, 1953;
- (b) it refused to vacate that part of its order of dismissal made June 26, 1953, which quashed service of process on the defendant Howard R. Hughes; and
- (c) it failed to set forth the absence of any appearance in opposition to the said motion to vacate dismissal, or to make other appropriate recitals.

VIII.

The trial court erred in accepting and considering papers filed by Henry Herzbrun and Robert Silver purportedly acting as attorneys for the plaintiffs without being substituted pursuant to the Local Rules of the trial court.

IX.

The trial court erred in failing to try appellants' defense of collusion and the absence of a truly adversary proceeding so as to support its implied conclusion of law that the Nevada judgment was res judicata of the issues raised in the within action.

Dated: November 5, 1954.

/s/ BERNARD REICH,
Attorney for Appellants.

[Endorsed]: Filed November 5, 1954.

IN THE

**United States Court of Appeals
FOR THE NINTH CIRCUIT**

Eli B. CASTLEMAN, Marion V. CASTLEMAN, Louis FEUERMAN, Julius NOVEMBER, Eleanor NOVEMBER,
and Bernhard REICH,

Appellants,

vs.

Howard R. HUGHES, RKO PICTURES CORPORATION,
RKO RADIO PICTURES, INC., THE CHASE NATIONAL
BANK OF THE CITY OF NEW YORK, Eli B. CASTLEMAN,
Marion V. CASTLEMAN and Louis FEUERMAN

Appellees.

APPELLANTS' OPENING BRIEF.

Bernhard REICH,
328 South Beverly Drive,
Beverly Hills, California,
Attorney for Appellants.

FILED

APR 14 1955

PAUL P. O'BRIEN, CLERK

TOPICAL INDEX

PAGE

Jurisdictional facts	1
The motion to dismiss appeal.....	2
Concise statement of the case.....	4
Detailed statement of the case.....	5
Specification of errors.....	11
Argument	12

I.

The District Court erred in dismissing the action before hearing and determining appellants' defenses of collusion and the absence of a truly adversary proceeding so as to support its conclusion of law that the Nevada judgment was res judicata	12
A foreign judgment is subject to attack for fraud, collusion and the absence of a truly adversary proceeding.....	12

II.

The District Court erred in ruling that the final judgment in the Nevada action was res judicata and compelled dismissal of the action herein.....	16
In addition to being subject to attack for fraud, collusion and the absence of a truly adversary proceeding, a foreign judgment is subject to attack for lack of due process or adequate and sufficient notice of proceedings.....	16

III.

The District Court erred in ruling that the Delaware action rendered the action herein moot and compelled its dismissal	19
---	----

IV.

The District Court erred in refusing to try the case, continuing it indefinitely, putting matters off calendar, refusing to rule on motions and petitions and finally dismissing the case with other motions pending and undetermined.....	24
--	----

V.

The District Court erred in failing to grant the timely motion to intervene. Appellant Novembers' motion to intervene should have been granted as a matter of law.....	31
--	----

VI.

The District Court erred in failing to grant motions timely made	34
--	----

- A. It was error not to grant all of plaintiffs' motion to vacate order of dismissal made June 26, 1953..... 34
- B. The District Court erred in not granting the motion to vacate that part of the order of dismissal of June 26, 1953, which quashed service of process on Hughes 36
- C. The District Court erred in not hearing and determining favorably the motion for the appointment of a special master to investigate the charges of conspiracy and collusion

VII.

The District Court erred in accepting and considering papers filed by Mr. Henry Herzburn and Mr. Robert Silver, purportedly acting as attorneys for the plaintiffs without being substituted pursuant to the local rules of the District Court..	39
--	----

VIII.

The District Court erred in denying appellant Reich his fees and costs against the defendants.....	42
--	----

A. An attorney in a stockholder derivative action represents all of the stockholders for the benefit of the corporation	43
B. Since no fund at all is necessary to the jurisdiction of the court it was not necessary for the District Court to find a fund within its jurisdiction from which to award fees. Equity will deem the fund or benefit to the corporation before the court.....	45
C. The courts will nullify all efforts on the part of defendants to evade payment of the compensation which an attorney is equitably entitled to receive.....	46
D. The District Court's memorandum granting motion to dismiss analyzed with respect to fees and costs.....	47

IX.

The District Court erred in denying appellant Reich fees and costs against his clients, the plaintiffs.....	50
A. An attorney discharged without good cause is entitled to his attorney's fees on motion in the action which he was retained to prosecute.....	50
B. Notwithstanding a contingent fee the attorney on discharge without good cause is entitled to a fixed fee from his clients.....	51
Conclusion	52
Appendix:	
Extract from Reporter's Transcript of Proceedings had July 12, 1954 [R. 376-381].....	App. p. 1

TABLE OF AUTHORITIES CITED

CASES	PAGE
Allan Calculators, Inc. v. National Cash Register, 322 U. S. 137, 64 S. Ct. 905, 88 L. Ed. 1188.....	33
Barrett v. Denver Tramway Corp., 146 F. 2d 701.....	23
Bedgisoff v. Cushman, 12 F. 2d 667.....	26, 27
Bennett v. Bennett, 50 Cal. App. 48.....	18
Carter v. Shensako, 42 Cal. App. 2d 9.....	36
Casebolt v. Mid-Continent Airlines, 85 Fed. Supp. 915.....	50
Citrin v. Greater New York Industries, Inc., 79 Fed. Supp. 692	38
Cohn v. Young, 127 F. 2d 721.....	31
Colley v. Sapp, 44 Okla. 16, 142 Pac. 1193.....	45
Colley v. Wolcott, 187 Fed. 595.....	45
Corash v. Texas Corporation, reported in New York Law Jour., Mar. 2, 1943, p. 830.....	45
Dana v. Morgan, 232 Fed. 85.....	31
Donovan v. Carkner, reported in N. Y. Law Jour., Mar. 2, 1939, p. 984, col. 3.....	15
Dorsey v. Dorsey, 49 Cal. App. 2d 491.....	18
Dreadner v. Goldman Sachs Trading Corp., 240 App. Div. 242, 269 N. Y. Supp. 360.....	12
Drummond v. West, 212 Cal. 766.....	40
Duchess of Kingston's Case (1776), 20 Howell State Trials 355	12, 15
Earl of Bandon v. Becher (1835), 3 Clark & F. 479 (6 Eng. Rep. 1517)	12, 15
Fedanque v. American Maraicaibo Co., 92 A. 2d 311.....	23
Galpin v. Page, 85 U. S. 350.....	16
Golconda Petroleum Corporation v. Petrol Corporation, 46 Fed. Supp. 23	12, 43, 44
Greenough v. Coeur d'Alene Lead Co., 52 Idaho 599, 18 P. 2d 288	43, 46, 47

Hansberry v. Lee, 311 U. S. 32, 61 S. Ct. 115, 85 L. Ed. 22....	
	.....12, 14, 16
Hazel-Atlas Glass Co. v. Hartford-Empire Co., 322 U. S. 238, 64 S. Ct. 997, 88 L. Ed. 1250.....	36
Holden v. Hardy, 169 U. S. 366, 18 S. Ct. 383, 42 L. Ed. 780....	16
Howard, In re, 130 F. 2d 534.....	26, 27
Ingold v. Ingold, 30 Fed. Supp. 347.....	50, 51
John Griffiths & Son Co. v. United States, 72 F. 2d 466.....	50, 51
Johnson v. Johnson, 81 Cal. App. 2d 686.....	37
Kellogg v. Winchell, 273 Fed. 745.....	40
Lewis v. Manufacturers Casualty, 107 Fed. Supp. 465.....	26, 28
Martin v. American Potash & Chemical Corp., 92 A. 2d 295.....	23
McCartney v. Guardian Trust Co., 280 Fed. 64.....	50
McClellan v. Carland, 217 U. S. 268, 30 S. Ct. 501, 54 L. Ed. 762	26
McKeever v. Superior Court, 85 Cal. App. 381.....	37
Meighan v. American Grass Twine Co., 154 Fed. 346.....	43, 45, 46
Monaghan v. Hill, 140 F. 2d 31.....	43, 45
Neuberger v. Barrett, 180 Misc. 222, 39 N. Y. S. 2d 575.....	45
Posen v. Cowdin, reported in New York Law Jour., June 3, 1943, pp. 2164-2165.....	45
Princeton Coal & Mining Co. v. Gilchrist, 51 Ind. App. 216, 99 N. E. 426.....	46
Schiff v. RKO Pictures Corp., 104 A. 2d 267.....	19, 20
Schlessinger v. Ingber, 29 Fed. Supp. 581.....	38
Schwab v. Coleman, 145 F. 2d 672.....	26, 27
Scott v. Donahue, 93 Cal. App. 256.....	43, 44
Trustees v. Greenough, 105 U. S. 527.....	43
Twentieth Century-Fox Film Corporation v. Jenkins, 7 F. R. D. 197	31
United States v. Bates Valve Bag Corporation, 39 F. 2d 162....	23

	PAGE
United States v. 1 Dozen Bottles, 146 F. 2d 361.....	23, 26, 28
United States v. McMurtry, 24 F. 2d 145.....	40
United States v. Throckmorton, 98 U. S. 61.....	12, 14, 37
Universal Oil Products Co. v. Root Refining Co., 328 U. S. 575, 66 S. Ct. 1176, 90 L. Ed. 1447.....	36, 38
Walker v. Felt, 54 Cal. 386.....	43, 44
Webster Eisenlohr, Inc. v. Kalodner, 145 F. 2d 316....	12, 21, 22, 38
Wells Fargo & Co. v. City and County of San Francisco, 25 Cal. 2d 37.....	40
Williamson v. Collins, 243 Fed. 835.....	45
Wolpe v. Poretsky, 144 F. 2d 505.....	31
Woodbury v. Andrew Jergens Co., 69 F. 2d 49.....	50, 51
Young v. Higbee Co., 324 U. S. 204, 65 S. Ct. 594, 89 L. Ed. 890	43

RULES

Federal Rules of Civil Procedure, Rule 23	1, 22
Federal Rules of Civil Procedure, Rule 23(c)	16, 17, 18, 54
Federal Rules of Civil Procedure, Rule 24.....	31
Federal Rules of Civil Procedure, Rule 53	6, 25
Federal Rules of Civil Procedure, Rule 54(a).....	16
Federal Rules of Civil Procedure, Rule 54(c)	16, 18
Federal Rules of Civil Procedure, Rule 60(b)	12, 13, 36, 37
Rules of the United States Court of Appeals, Ninth Circuit, Local Rule 1(d).....	35, 40, 41
Rules of the United States Court of Appeals, Ninth Circuit, Local Rule 1(e)(2).....	40, 41
Rules of the United States Court of Appeals, Ninth Circuit, Local Rule 1(e)(3).....	40, 41
Rules of the United States Court of Appeals, Ninth Circuit, Local Rule 3(d).....	35
Rules of the United States Court of Appeals, Ninth Circuit, Local Rule 7(a).....	35

STATUTES

PAGE

Civil Code, Sec. 1572(4).....	37
United States Code, Title 28, Sec. 1291.....	1
United States Code, Title 28, Sec. 1738.....	12, 13, 16

TEXTBOOKS

39 Columbia Law Review (1939), pp. 784, 809, Hornstein, The Counsel Fee in Derivative Suits.....	46
47 Columbia Law Review (1947), p. 1, Hornstein, New As- pects of Stockholder's Derivative Suits, footnotes 78, 81, 83..	45
49 Corpus Juris Secundum, Sec. 278.....	36
67 Harvard Law Review, pp. 1059-1060	13, 14
67 Harvard Law Review (1954), pp. 1062, 1065, Binding Effect of Class Actions, Note.....	12
46 Yale Law Journal (1937), pp. 421, 424, 425, McLaughlin, Capacity of Plaintiff-Stockholder to Terminate Stockholders' Suit	12

No. 14573.

IN THE

United States Court of Appeals FOR THE NINTH CIRCUIT

ELI B. CASTLEMAN, MARION V. CASTLEMAN, LOUIS FEUERMAN, JULIUS NOVEMBER, ELEANOR NOVEMBER, and BERNARD REICH,

Appellants,

vs.

HOWARD R. HUGHES, RKO PICTURES CORPORATION, RKO RADIO PICTURES, INC., THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK, ELI B. CASTLEMAN, MARION V. CASTLEMAN and LOUIS FEUERMAN,

Appellees.

APPELLANTS' OPENING BRIEF.

Jurisdictional Facts.

This is an appeal under Section 1291 of Title 28 of the United States Code from a Final Judgment of Dismissal of the District Court for the Southern District of California, Central Division. The Final Judgment was made and entered September 27, 1954, and appears beginning page 360 of the Record.

Notice of Appeal was filed on October 4, 1954, and appears on page 362 of the Record.

The action dismissed was a minority stockholders' derivative action or class action under Rule 23 of the Federal Rules of Civil Procedure against Howard R. Hughes,

RKO Pictures Corporation, RKO Radio Pictures, Inc., and another. It was an equitable action for an accounting and other relief principally against Hughes who, it was alleged, was liable to the RKO Companies for waste, negligence and mismanagement of its affairs and with violation of his fiduciary duty in connection with the substantial profit made by him as the result of certain stock transactions. It was estimated that Hughes was liable to RKO for over \$38,000,000.00 [R. 266].

Without trial or the taking of any testimony, the action was dismissed with prejudice and motions by plaintiffs' attorney of record for fees and costs against the defendants and against the plaintiffs were denied.

This appeal also brings up for review the failure to grant petition of the appellants, Julius November and Eleanor November, to intervene in the action, as well as other acts and omissions, of the District Court.

The District Court rendered no opinion but filed a "Memorandum Granting Motion to Dismiss" which appears on pages 356 and 357 of the Record.

The Motion to Dismiss Appeal.

By motion dated October 25, 1954, the appellants and appellees Eli B. Castleman, Marion V. Castleman, and Louis Feuerman, moved this Court to dismiss the appeal on the grounds:

"(a) That the purported appellants Eli B. Castleman, Marion V. Castleman, and Louis Feuerman, designated in the Notice of Appeal as 'appellants' are not appellants herein and that the Notice of Appeal

purportedly served on their behalf was served without their authority and in contravention to their express wishes;

“(b) That the purported appellants Julius November, Eleanor November and Bernard Reich, not being parties to the record in the case below, are not persons who are entitled to appeal;

“(c) That the purported appeal, having no foundation in law or fact, has not been taken in good faith.”

The opposing papers admitted that the appeal herein was taken without the consent of the appellants Castleman and Feuerman, but it was alleged that this was a class action and that the said appellants had acted collusively in consenting to the judgment below.

On November 30, 1954, this Court (Honorable Healy, Orr, Pope, C. J.) denied the motion to dismiss the appeal.

On January 25, 1955, this same Court entered an order denying the same appellants-appellees' motion for resetting Order of November 30, 1954.

The extraordinary circumstances of this case require some explanation of why counsel has designated himself as attorney for the appellants, including three who have not authorized him to take the appeal. Rather than restate this explanation we have appended to this brief the unpolished and unedited remarks made to the District Court on July 12, 1954, which may be found in the Record beginning on page 376. These remarks and the statements of the case which follow, we submit, will satisfy the Court's interest in the problem.

Concise Statement of the Case.

There follows under this heading a short statement of the case, presenting succinctly the questions involved and the manner in which they are raised.

On December 13, 1952, New York counsel for the plaintiffs retained Bernard Reich to file and prosecute in California the class action filed below. Thereafter and without Reich's knowledge or consent the plaintiffs and defendants combined to deprive the District Court of jurisdiction and to transfer jurisdiction to a Nevada state court where the action was settled or "tried" without a truly adversary proceeding, contrary to the interests of the stockholders. That Court dismissed the case, although it awarded \$160,000.00 in attorneys' fees and costs.

In the meantime the action filed below by Reich, local attorney of record for plaintiffs, was first dismissed on June 26, 1953, without his knowledge or consent, then when restored at his instance against the opposition of plaintiffs and defendants, was delayed and buffeted about until the Nevada action was determined.

Motions designed to investigate the Nevada action and the arrangements between the parties against the best interests of RKO stockholders, and which sought a hearing on the issues which had to be determined before defendants' motion to dismiss for *res judicata*, were, to use the language of the District Court, "put to sleep", continued, marked off-calendar, and never determined. This non-action was also true with respect to timely petitions by the appellants November and other stockholders to intervene.

Again defendants moved to dismiss below. Plaintiffs consented to the dismissal over Reich's opposition. Reich

had never been substituted out and he continued to stay and act in the case as attorney for all RKO stockholders including the proposed interveners, the appellants November.

This appeal brings up not only the judgment of dismissal, but the failure of the trial court to determine the Novembers' motion to intervene, the various motions to appoint a special master, and for a trial or hearing on the issues of collusion and so forth.

It brings up for review the question as to whether the Nevada judgment is *res judicata*, and whether a Delaware state action (brought by some stockholders subsequent to the instant action and the Nevada action) to halt the sale of RKO assets to the appellee Hughes and determined adversely to plaintiffs, rendered the instant action moot.

Finally, the appeal brings up for review the denied counter-motions of the appellant Reich for fees and costs against the defendants-appellees and the plaintiffs-appellees.

Detailed Statement of the Case.

The action having been dismissed summarily, without trial or the hearing of testimony, the allegations of fact with respect to the defenses against the dismissal of the action and in support of the appellants' motions must be for the purposes of this appeal at least taken as true.

These facts are set forth in affidavits filed below which together with the pages of the Record at which they may be found are as follows:

Affidavit of Bernard Reich in support of motion to vacate Order of Dismissal made June 26, 1953 [R. 44].

Affidavit of Bernard Reich in support of motion for the appointment of a Special Master under Rule 53 of the Federal Rules of Civil Procedure [R. 92].

Affidavit of Bernard Reich in support of motion to vacate part of Order of January 12, 1954, and for other relief [R. 135].

Affidavit of Bernard Reich in opposition to motion to dismiss [R. 242].

Affidavit of Bernard Reich in support of motion for fees and costs as against plaintiffs [R. 264].

Affidavit of Bernard Reich in support of motion for counsel fees and costs against the defendants [R. 284].

The abovementioned Record citations will support the following ultimate facts and conclusions:

On December 13, 1952, New York attorneys Louis Kipnis and Leo B. Mittelman retained Reich to file and prosecute in California the class action filed below; they agreed to pay him 10% of any and all fees awarded anywhere, to pay further fees as may be determined by a named third person in New York, and to reimburse him for all costs.

On December 15, 1952, Reich filed the action below and on March 4, 1953, he filed an amended complaint which more specifically and in detail set forth the acts of waste, negligence and mismanagement of the defendant Hughes.

Beginning late in the year 1952, and after the filing of the action, Messrs. Kipnis and Mittelman in their own behalf and in behalf of the plaintiffs, and without Reich's

knowledge or consent, among other things, combined with the defendants to do the following:

- (a) Withdrew the New York receivership proceedings previously filed;
- (b) Filed a similar stockholder action in the state court in Las Vegas, Nevada, after the filing of the action below;
- (c) Conferred jurisdiction of all of the stockholder actions filed by plaintiffs on the Nevada state court in Las Vegas, which required and consisted of the change of the residence of the defendant Hughes from California to Nevada, his submission and the submission of other non-resident defendants, including the corporations* and the directors thereof, to the jurisdiction of Nevada.
- (d) Moved in the action below to quash service of process on defendant Hughes, prevailed on Reich to default on the said motion, and otherwise prevented him from contesting it;
- (e) Caused the first dismissal of the action below, done June 26, 1953, in violation of the Local Rules of the District Court;
- (f) Opposed the vacation of the said order of dismissal which was nevertheless done at Reich's instance;
- (g) Acted to delay prosecution of the action below and to give preference to the subsequently filed Nevada action;

*RKO Pictures Corporation, the parent company, refused to submit without opposition to the jurisdiction in this action on the ground it was not doing business in California. The point was not pressed below because of the other problems.

(h) Acted in the Nevada action to give the appearance of a contested and adversary proceeding, but in truth and in fact entered into what was in effect a consent judgment;

(i) Consented to a form of judgment in the Nevada action, including provision for the payment of counsel fees and costs directly to the plaintiffs, which on its face purported to preclude Reich from obtaining compensation in the California action as against the defendants for the services rendered by him in the action below;

(j) Caused the final dismissal of the action below, done September 27, 1954;

(k) Opposed Reich's application for counsel fees and costs as against the defendants below.

Thus did the plaintiffs and their New York counsel combine with the defendants to deprive the court below of jurisdiction and to confer jurisdiction in virtually an uncontested proceeding on the state court at Las Vegas, Nevada.

On February 7, 1954, Mr. Hughes offered to purchase from RKO "all of its assets as of the date of transfer to (him), including any and all claims or causes of action of every kind or character against, or which might be asserted against, any person or persons including (him)." He agreed to pay for such assets the sum of \$23,489,-478.00 in cash upon transfer of the assets to him, said sum being equal to \$6.00 per share of a total number of outstanding shares of 3,914,913.

The market price of RKO shares just prior to the said offer was \$2.87 per share, so that Mr. Hughes was in effect offering to RKO \$12,253,677.69 above the market price.

In February 1954, Mr. Hughes moved the Nevada court to dismiss the action against him on the ground that the said offer, if accepted by the corporation and approved by the stockholders, "will effectively extinguish all claims or causes of action against this defendant and will render this pending action moot as to this defendant." Plaintiffs *in Nevada* did not oppose the motion, except to reserve the question of fees and costs, and the court, on April 1, 1954, entered final judgment of dismissal of that action—not on the ground of mootness but on the merits and as a compromise of the action, this without notice to the stockholders.

On April 15, 1954, the Nevada court filed its final order providing in part as follows [R. 238]:

"7. That the plaintiffs Eli B. Castleman, *et al.*, on their motion, have established that they are entitled to recover from such fund their reasonable expenses; that a reasonable allowance to them for such expenses is as follows:

For attorneys' fees, \$125,000.00;

For accountants' fees, \$25,000.00;

For disbursements for expenses of their attorneys, \$8,000.00;

For disbursements for expenses of their accountants, \$2,000.00;

that such allowance shall cover all fees for *all attorneys* who have appeared in *any* action, wherever pend-

ing, on behalf of Eli B. Castleman, et al., the plaintiffs in this action, and all accountants or others who have rendered any services on their behalf, whether or not such attorneys or accountants have appeared in this Court." (Emphasis added.)

In the meantime Reich had made efforts to have the court below exercise its jurisdiction; had sought the deposition of Hughes; had sought the appointment of a Special Master; and, when invited by the court, had appeared for the interveners November and had not opposed the petition to intervene by other stockholders.

The District Court wanted no part of this case. For example, on October 19, 1953, it stated [R. 370]:

“The Court: May I say just a word? Counsel has done a lot of talking on both sides in this case, but so far as this court is concerned *it is going to put this case to sleep* until the Nevada case is determined * * * I know Judge McNamee. He is a very able man and a very scholarly man and I think as long as they have started through the wringer over there and that court has jurisdiction of the parties, *I am not going to bother with this mess.*” (Emphasis added.)

After the case was finalized in Nevada, RKO moved the District Court herein to dismiss the case on the ground of *res judicata*. Over the opposition of Reich and the interveners *but not of the plaintiffs*, the District Court granted the motion to dismiss not only on the ground of *res judicata*, but on the further ground, that a subsequent Delaware action (which had before it only the issue of the validity of the sale of RKO assets to Mr. Hughes) rendered the action herein moot.

Specification of Errors.

It is respectfully submitted that the District Court erred:

1. In dismissing the action on September 27, 1954 before hearing and determining the defenses of collusion and the absence of a truly adversary proceeding in Nevada.
2. In ruling that the final judgment in the Nevada action was *res judicata* and compelled dismissal of the action herein.
3. In ruling that the Delaware action rendered the action herein moot and compelled its dismissal.
4. In refusing to try the case, in continuing it indefinitely, putting matters off calendar, refusing to rule on motions, and finally dismissing the case with motions and petitions pending and undetermined.
5. In failing to grant the timely motion and petition of appellants November to intervene in the action.
6. In failing to grant timely motions including:
 - (a) The whole of plaintiffs' motion to vacate order of dismissal made June 26, 1953;
 - (b) Motion to vacate in part Order entered January 12, 1954;
 - (c) Motion for appointment of Special Master.
7. In accepting and considering papers filed by Mr. Henry Herzbrun and Mr. Robert Silver, purportedly acting as attorneys for the plaintiffs without being substituted pursuant to the Local Rules of the District Court.
8. In denying the motions (2) for counsel fees and costs as against the defendants (other than the bank) and as against the plaintiffs.

ARGUMENT.

I.

The District Court Erred in Dismissing the Action Before Hearing and Determining Appellants' Defenses of Collusion and the Absence of a Truly Adversary Proceeding So as to Support Its Conclusion of Law That the Nevada Judgment Was Res Judicata.

A Foreign Judgment Is Subject to Attack for Fraud, Collusion and the Absence of a Truly Adversary Proceeding.

28 U. S. C., Sce. 1738;

Fed. Rules of Civ. Proc., 60(b);

Note, *Binding Effect of Class Actions*, 67 Harv. L. Rev. 1059, 1060, 1062, 1065 (1954);

McLaughlin, Capacity of Plaintiff-Stockholder to Terminate Stockholders' Suit, 46 Yale L. J. 421, 424, 425 (1937);

Hansberry v. Lee, 311 U. S. 32, 40, 45, 61 S. Ct. 115, 117, 85 L. Ed. 22, 26 (1940);

United States v. Throckmorton, 98 U. S. 61, 65-66 (1878);

Earl of Bandon v. Becher, 3 Clark & F. 479-512 (6 Eng. Rep. 1517) (1835);

Duchess of Kingston's Case, 20 Howell State Trials 355, 478, 479 (1776).

Cf:

Dreadner v. Goldman Sachs Trading Corp., 240 App. Div. 242, 247-249, 269 N. Y. Supp. 360, 366-367 (N. Y., 1934);

Golconda Petroleum Corporation v. Petrol Corporation, 46 Fed. Supp. 23, 26 (D. C. Cal., 1942);

Webster Eisenlohr, Inc. v. Kalodner, 145 F. 2d 316, 323, 324 (C. C. A. 3, 1944).

It should be noted that the principles of *res judicata* and full faith and credit have their applicability by reason of Section 1738 of Title 28 of the United States Code, which in essence provides that the records and judicial proceedings of any state are entitled to the same full faith and credit in every court within the United States as they have by law or usage in the courts of such state from which they are taken. Obviously therefore Federal Rules of Civil Procedure 60(b), and the comparable provision of the Nevada Rules, which renders a judgment subject to attack for fraud, etc., is applicable not only in Nevada but in California.

“It should be noted that the binding force of a particular action cannot be determined accurately by the court which hears the class suit, for that court is ill-equipped to test the adequacy of the representation of absent class members, the sufficiency of notice given, or even the general fairness of the proceeding. Since these questions can best be answered realistically with respect to a particular person, the ultimate effect of the class action judgment will be determined when it is introduced in a subsequent action to bind persons not parties to the original action.

“*Adequate Representation*—The class action is premised on the theory that members of the class who are not before the court can justly be bound because the self-interest of their representatives will assure adequate litigation of the common issues. Where, however, the interests of absent class members have not been adequately represented, binding them by class judgment would seem to offend the requirements of due process. [Hansberry v. Lee, 311 U. S. 32, 40 (1940).] Thus, the class action in which the class

representatives colluded with the common adversary can have no effect upon those who did not participate."

67 Harv. L. Rev. 1059-1060.

In *Hansberry v. Lee, supra*, the Supreme Court stated (311 U. S. at p. 40) :

"But when the judgment of a state court, ascribing to the judgment of another court the binding force and effect of *res judicata*, is challenged for want of due process it becomes the duty of this Court to examine the course of procedure in both litigations to ascertain whether the litigant whose rights have thus been adjudicated has been afforded such notice and opportunity to be heard as are requisite to the due process which the Constitution prescribes"

In *United States v. Throckmorton, supra*, the Court stated (98 U. S. at pp. 65-66) :

"But there is an admitted exception to this general rule in cases where, by reason of some thing done by the successful party to a suit, there was in fact no adversary trial or decision of the issue in the case. Where the unsuccessful party has been prevented from exhibiting fully his case, by fraud or deception practiced on him by his opponent, as by keeping him away from court, a false promise of a compromise; or where the defendant never had knowledge of the suit, being kept in ignorance by the acts of the plaintiffs; or where an attorney fraudulently or without authority assumes to represent a party and connives at his defeat; or where the attorney regularly employed corruptly sells out his client's interest to the other side,—these, and similar cases which show that there has never been a real contest in the trial or hearing of the case, are reasons for which a new

suit may be sustained to set aside and annul the former judgment or decree, and upon the case for a new and a fair hearing. See, *Wells Res Adjudicata*, sec. 499; *Pearce v. Olney*, 20 Conn. 544; *Wierich v. DeZoya*, 7 Ill. (2 Gilm.) 385; *Kent v. Ricards*, 3 Md. Ch. 396; *Smith v. Lowry*, 1 Johns. Ch. 320; *DeLouis v. Meek*, 2 Green (Iowa), 55." (Emphasis added.)

In the *Earl of Bandon* case, the English court quoted from the *Duchess of Kingston* case as follows (6 Eng. Rep. at p. 1529):

"A sentence is a judicial determination of a cause agitated between real parties, upon which a real interest has been settled;—in order to make a sentence there must be a real interest, a real argument, a real prosecution, a real defense, a real decision. Of all these requisites not one takes place in the case of a fraudulent and collusive suit; there is no judge, but a person invested with the ensigns of a judicial office, is misemployed in listening to a fictitious cause proposed to him; there is no party litigating, there is no party defendant, no real interest brought into question"

On its own the English court case stated:

"It is not an irregularity, it is not an error which is here complained of, but it is that the whole proceeding is collusive and fraudulent; and it cannot therefore be treated as a judicial proceeding, but may be passed by as availing nothing to the party who sets it up."

In *Donovan v. Carkner*, a decision of the New York Supreme Court, reported in the New York Law Journal for March 2, 1939, page 984, column 3, defendants' mo-

tion to stay a suit, pending a Delaware suit actually on trial, was denied because

“there is . . . some basis for the plaintiff’s belief that the unusual haste and cooperation which characterizes the action suggests a friendly stockholder’s suit that will not fully represent the legitimate interests of the defendant Lott, Inc.”

This record is replete with the “unusual haste and cooperation” which prevailed in the Nevada court, a suit filed subsequent to the action below [R. 97, 186, 370, 374].

II.

The District Court Erred in Ruling That the Final Judgment in the Nevada Action Was Res Judicata and Compelled Dismissal of the Action Herein.

In Addition to Being Subject to Attack for Fraud, Collusion and the Absence of a Truly Adversary Proceeding, a Foreign Judgment Is Subject to Attack for Lack of Due Process or Adequate and Sufficient Notice of Proceedings.

28 U. S. C., Sec. 1738;

Fed. Rules of Civ. Proc., 23(c), 54(a), 54(c);

Hansberry v. Lee, 311 U. S. 32, 40, 1 S. Ct. 115, 117, 85 L. Ed. 22, 26 (1940);

Holden v. Hardy, 169 U. S. 366, 389, 18 S. Ct. 383, 387, 42 L. Ed. 780, 790 (1898);

Galpin v. Page, 85 U. S. 350, 368, 369 (1873).

In the *Holden v. Hardy* case, *supra*, the Supreme Court stated (169 U. S. at p. 389):

“. . . there are certain immutable principles of justice which inhere in the very idea of free government which no member of the union may disre-

gard, as that no man shall be condemned in his person or property without due notice and an opportunity of being heard . . .”

The papers in support of the motion below to dismiss on their face showed that the only motion leading to the final judgment in Nevada of which the stockholders had notice was a motion to dismiss on the ground of mootness [R. 200]. The motion was predicated on Mr. Hughes' intention to purchase the assets of RKO including the actions against him. The moving papers below showed that the Nevada action was not in fact or in law dismissed on the ground of mootness or any other grounds of which the stockholders had notice [R. 226, 231]. What happened was that at the instance of the defendants, the Nevada court converted the motion so as to approve the sale of the assets as a “compromise” of the law suits [R. 215, 243]. The stockholders were not given notice of the proposed “compromise” in accordance with Federal Rule 23(c), purported to be identical to the same numbered rule of the Nevada Rules of Civil Procedure.

The sense of the proceedings in Nevada was that the defendants first contended that the Hughes' offer was one to buy the assets, including the law suits, which would then render the stockholder suits moot. Once, however, the defendants obtained in Delaware an adjudication against vacating the sale, they sought to obtain the benefits of Rule 23(c).

The stockholders were not given notice that the Nevada Court would hear evidence on whether or not the offer of Mr. Hughes was a fair compromise of the law suits against him.

In order, however, to give to the Nevada decree respectability and lay foundation for the motion below to dismiss, the defendants in Nevada, without prior notice to the stockholders, introduced the issue of compromise under Rule 23(c).

The point is that the proceedings before the Nevada court were not actually contested. If the plaintiffs in Nevada represented all of the stockholders they violated their trust. If they represented only themselves then none of the stockholders, except the plaintiffs, had notice of the actual proceedings.

If the motion to dismiss was in effect granted by default, the Nevada court went beyond its jurisdiction since a judgment by default cannot be different in kind from the demand for judgment.

Federal Rules of Civil Procedure, 54(c).

Cf:

Dorsey v. Dorsey, 49 Cal. App. 2d 491 (1942);

Bennett v. Bennett, 50 Cal. App. 48 (1920).

We could document further each of the above allegations were we seeking a review of a judgment of a District Court, which, after hearing the evidence, ruled adversely to our claims. There is no such order. The District Court refused to take testimony on these issues and our only purpose in raising the point of due process is to show that the District Court erred in making no disposition of this claim.

III.

The District Court Erred in Ruling That the Delaware Action Rendered the Action Herein Moot and Compelled Its Dismissal.

In its Memorandum Granting Motion to Dismiss [R. 356] the District Court stated:

“This case is one of several shareholders’ derivative actions filed in both state and federal courts throughout the United States involving alleged injury to the same corporation at the hands of the same corporate officers. [For a detailed history of the events giving rise to this litigation see *Schiff v. RKO Pictures Corp.*, 104 A. 2d 267 (1954).]

“Defendant RKO Radio Pictures, Inc., has made a motion to dismiss this action with prejudice. The occurrence of two events since the institution of this action compels that this motion be granted.

“First, a sale of all of the assets of the corporation on behalf of which this action was brought to the corporate officer who is the alleged principal wrongdoer has been consummated. The terms of the contract of that sale provide that all causes of action held by the corporation against any person including that particular officer are to be a part of the assets sold. The validity of this sale has been upheld by the Delaware Chancery Court. [*Schiff v. RKO, supra.*] The effect of that sale is to render this action moot.”

The *Schiff* case was a subsequent action by minority stockholders attacking the sale to Mr. Hughes of all the assets of RKO including all actions such as the action here.

We concede that the Delaware action is *res judicata* on the issue as to whether the sale was fair and that the

IV.

The District Court Erred in Refusing to Try the Case, Continuing It Indefinitely, Putting Matters Off Calendar, Refusing to Rule on Motions and Petitions and Finally Dismissing the Case With Other Motions Pending and Undetermined.

On October 19, 1953, the District Court said [R. 370]:

“The Court: May I say just a word? Counsel has done a lot of talking on both sides in this case, *but as far as this court is concerned it is going to put this case to sleep until the Nevada case is determined.*

I am not going to hear it and I am not going to do anything with it that I don't have to do.

This case is pending in Nevada and I understand it is at issue over there. They are taking depositions and they are getting ready for trial. I know Judge McNamee. He is a very able man and a very scholarly man and I think as long as they have started through the wringer over there and that court has jurisdiction of the parties, *I am not going to bother with this mess.*

You can fire him [Reich] or not, or he can just sit here and wait. If I don't die of old age first maybe he will.” (Emphasis added.)

Before and after that statement, the court below did precisely what it said it would do.

On August 5, 1954, the date of its memorandum granting motion to dismiss, the court had pending before it the following motions as set forth in its Minutes of July 12, 1954 [R. 351]:

1. Motion of plaintiffs to vacate in part order docketed and entered January 12, 1954, and for other relief;

2. Application of plaintiffs for leave to take the deposition of Howard R. Hughes;
3. Further hearing motion of Bernard Reich, Esq., local attorney of record for the plaintiffs, for appointment of a Special Master, pursuant to Rule 53 of Federal Rules of Civil Procedure, and renoteice of hearing, filed March 11, 1954;
4. Motion of plaintiffs and the proposed intervenors, Julius November and Eleanor November, to add and join parties plaintiff, or for leave to intervene;
5. Motion of plaintiffs to quash depositions noticed by Louis Kipnis, Leo B. Mittelman and Robert Silver, Esqs., purported attorneys for plaintiffs, as noticed April 9, 1954, of witnesses Benjamin F. Schwartz, *et al.*;
6. Motion of defendant RKO Radio Pictures, Inc., for dismissal of this action, with prejudice, pursuant to notice, motion, points and authorities, and affidavit filed April 7, 1954, and orders of continuance;
7. Motion of Bernard Reich, attorney for plaintiffs, filed June 28, 1954, for counsel fees and costs from plaintiffs;
8. Motion of Bernard Reich, attorney for plaintiffs, and proposed intervenors, filed June 28, 1954, for counsel fees and costs from defendants other than the Chase National Bank.

The District Court failed to dispose of 1, 2, 3, 4 and 5.

We grant that these motions were rendered practically (not legally) moot by the District Court's non-action

pending the outcome of the subsequently-filed foreign suits. However, it is clear that this procedure of the District Court constituted reversible error.

McClellan v. Carland, 217 U. S. 268, 281-2, 30 S. Ct. 501, 504, 54 L. Ed. 762, 767 (1910);

Bedgisoff v. Cushman, 12 F. 2d 667, 668 (C. C. A. 9, 1926);

In re Howard, 130 F. 2d 534 (C. C. A. 5, 1942);

Schwab v. Coleman, 145 F. 2d 672, 677, 678 (C. C. A. 4, 1944);

United States v. 1 Dozen Bottles, 146 F. 2d 361, 363-364 (C. C. A. 4, 1944);

Lewis v. Manufacturers Casualty, 107 Fed. Supp. 465, 473 (D. C. La., 1952).

In the *McClellan* case, *supra*, the Supreme Court had before it for review an order below staying an action pending also a subsequently-filed state action. The Court stated (217 U. S. at pp. 281-282):

“It cannot be denied that a circuit court of the United States, like other courts, had power to postpone the trial of cases for good reasons, but, by the orders made in this case, the Federal court withheld the further exercise of its authority until the state court, by its action in a case involving all the parties, might render a judgment which would be *res judicata*, and thus prevent further proceedings in the Federal court.

* * * * *

“. . . In the present case, so far as the record before the circuit court of appeals discloses, the circuit court of the United States had acquired jurisdiction, the issues were made up, and when the state intervened, the Federal court practically turned the

case over for determination to the state court. We think it had no authority to do this, and that the circuit court of appeals, upon the record before it, should have issued the writ of mandamus to require the judge of the circuit court of the United States to show cause why he did not proceed to hear and determine the case."

In the *Bedgisoff* case, *supra*, this Court had before it a case where the district court had continued the action to after this country's recognition of Russia. This Court after stating (12 F. 2d at p. 668) that "The only question presented by this record for our determination is plaintiff's right to a hearing," held that the plaintiff was entitled to have his case tried.

In the *Howard* case, *supra*, the Fifth Circuit held that the district court erred in postponing determination of an issue pending decision of the Supreme Court in another case.

In the *Schwab* case, *supra*, the Fourth Circuit held that the district court erred in continuing indefinitely an application for citizenship on the ground that the war made a thorough investigation by the government of the applicant impossible. It stated (145 F. 2d at pp. 677, 678):

"If the judge had passed upon the petitions of applicants and denied them naturalization, they could have appealed to us and asked a reversal of his decision, which could then have been reviewed by us in the light of the law and the evidence. We do not think that their right to such review can be defeated by continuing the hearing of the petitions over their protest. A continuance may, of course, be granted in naturalization cases as well as in others, and whether or not such continuance shall be granted is ordinarily a matter resting in the court's discretion;

but the discretion thus vested in the court is a sound, not an arbitrary, discretion; and it may not be exercised in such way as to result in the denial of the right of review to which a party is entitled.

* * * * *

“ . . . Whether petitioners were entitled to naturalization or not, they were, at least, entitled to have their petitions passed upon so that they might appeal from an adverse decision to this court; and the continuance over their protest did not lie within the limits of judicial discretion as to granting continuances but amounted to a refusal to exercise power which petitioners had a right to have exercised. 35 Am. Jur., pp. 25, 26.”

In the *1 Dozen Bottles* case, *supra*, the Fourth Circuit held that the power of the district court to condemn misbranded articles is not affected by power of the Federal Trade Commission to issue a cease and desist order and the withdrawal by the defendant of the offending circulars, stating (146 F. 2d at pp. 363-364):

“It should proceed to hear and determine the charges contained in the libel upon the merits since the right of a party litigant to the judgment of a court upon a matter properly before it is a fundamental aim of the law. Cohen v. Virginia, 6 Wheaton 264, 404, 5 L. Ed. 256, 257; Willcox v. Consolidated Gas Co., 212 U. S. 19, 40, 29 S. Ct. 192, 53 L. Ed. 382, 48 L. R. A., N. S., 1134, 15 Ann. Cas. 1034; McClellan v. Carland, 217 U. S. 268, 282, 30 S. Ct. 501, 54 L. Ed. 762; 35 Am. Jur. (Mandamus) §254, p. 25.”

In *Lewis v. Manufacturers Casualty Ins. Co.*, 107 Fed. Supp. 465, 473-474, District Judge Porterie has so well

stated the problem and its answer that we hope we will be pardoned for quoting at some length. The learned judge stated:

“There is a controversy between plaintiffs and defendant. This Court, having jurisdiction to hear and determine it, must do so bindingly for any United States citizen, even a Louisiana citizen, regardless of the fact that, peculiar to our form of government (dual sovereignty and citizenship), a state court may also have jurisdiction to hear and determine it bindingly.

“The right being a substantive one and the remedy delineated and supplied, this Court, having jurisdiction, must hear and determine and bindingly decree the rights of the parties before it under the circumstances. That is exactly why Congress established and ordained this Court. That this case may be litigated in a state court or that the docket of this Court is congested, or that litigation floods here, is no answer, begs the question, and is no excuse for us to refuse to exercise the judicial power vested in us by the Congress, the Constitution, and the people of the United States, among the latter of which, incidentally, are these plaintiffs. That is a part of government of, by and for the people. *With such statutory sanction, defendant's apparent endeavor that this case be tried in a state court is reduced to a shadow.* The jurisdiction of this Court is not governed by statistics, or the momentum of cases here.

“Plaintiffs, being citizens of both sovereignties, have a right to be heard in either court; in any event they have a right to be heard here; and here they should be heard. *This Court cannot abdicate its authority or duty to a state court.* Suydam v. Broadnax, 14 Pet. 67, 39 U. S. 67, 10 L. Ed. 357; Presi-

dent, Directors and Company of the Union Bank of Tennessee v. Vaiden (Jolly's Adm'rs), 18 How. 503, 506, 59 U. S. 503, 506, L. Ed. 472; Chicago & N. W. Ry. Co. v. Whitton Adm'r, 13 Wall. 270, 80 U. S. 270, 20 L. Ed. 571; Chicot County v. Sherwood, 148 U. S. 529, 13 S. Ct. 695, 37 L. Ed. 546; McClellan v. Carland, 217 U. S. 268, 30 S. Ct. 501, 54 L. Ed. 762; Kline v. Burke Const. Co., 260 U. S. 226, 43 S. Ct. 79, 67 L. Ed. 226, 24 A. L. R. 1077.

“We can no more refuse to hear a case where there is diversity, as here, than we can refuse to hear any other case arising under the Supreme Law of the Land. *A United States court must hear a United States citizen where there is jurisdiction such as is here present.*

* * * * *

“We have seldom seen so dense a legal smoke screen thrown out in an attempt to create a complex and involved legal question where none exists. The Acts of Congress, above quoted, 28 U. S. C., §§1332, 1391, 28 U. S. C. A., §§1332, 1391, are clear enough. An attempt is made to raise a legal question by tacking adjectives to the word ‘controversy’ as used in the first-quoted Act and to the word ‘Controversies’ as used in our Constitution; or, by substituting for the word ‘controversy’ or ‘Controversies’ such phrases as ‘principal purpose’ or ‘primary and controlling matter in dispute’; thus stepping the question out of character into nonanalogous fields, all in the face of well-established jurisprudence in point. Having executed this *coup d'essai*, tenuous arguments are built atop a foundation that is simply not the statute from whence argument is professed. This is legal fog.” (Emphasis added.)

V.

The District Court Erred in Failing to Grant the Timely Motion to Intervene. Appellant November's Motion to Intervene Should Have Been Granted as a Matter of Law.

By motion dated March 5, 1954, and filed March 11, 1954 [R. 175], the appellants November moved to intervene and to become parties plaintiff herein on the ground, among others, and supported by affidavits, that as RKO stockholders, the representation of their interest by the plaintiffs was inadequate and that they would be bound by the judgment. The motion should have been granted as a matter of right.

Fed. Rules Civ. Proc., Rule 24;

Dana v. Morgan, 232 Fed. 85, 91 (C. C. A. 2, 1916);

Cohn v. Young, 127 F. 2d 721, 724 (C. C. A. 6, 1942);

Wolpe v. Poretsky, 144 F. 2d 505, 507, 508 (C. A., D. of Col., 1944) (cert. den. 1944);

Twentieth Century-Fox Film Corporation v. Jenkins, 7 F. R. D. 197, 198 (D. C. N. Y., 1947).

In *Wolpe v. Poretsky*, *supra*, the court held that intervention could be had even after a final decree. It stated (144 F. 2d at p. 508):

“The application to intervene was timely. Intervention may be allowed after a final decree where it is necessary to preserve some right which cannot otherwise be protected. Here at least one of the rights which cannot be protected without interven-

tion is the right of appeal. The court was, therefore, in error in denying appellants leave to intervene as a matter of right.

"In their motion to intervene appellants relied solely on Rule 24(b) of the Federal Rules of Civil Procedure, which relates to permissive intervention. However, had the intervention been permissive we think it would have been an abuse of discretion to deny it under the circumstances of this case. Adjoining property owners in a suit to vacate a zoning order have such a vital interest in the result of that suit that they should be granted permission to intervene as a matter of course unless compelling reasons against such intervention are shown.

"When they filed their petition for intervention appellants had all the rights of a party at that stage of the proceedings. This, of course, includes the right of appeal. Since the time for appeal had not expired when appellants sought to intervene they should be made parties with the right to appeal and all other rights a party might exercise at the time their intervention was filed.

"Reversed and remanded."

The plaintiffs and defendants below took the position in the District Court that the proposed interveners, the appellants November, were bound by the Nevada judgment which they said in turn was binding on the District Court and on all the stockholders, including the proposed interveners [R. 189, 344].

The District Court in effect denied the motion to intervene by taking it off calendar or otherwise refusing to act on it. Rather than seek mandamus the proposed in-

terveners adopted the better procedure of appealing from the final judgment.

Allan Calculators, Inc. v. National Cash Register,
322 U. S. 137, 142, 64 S. Ct. 905, 908, 88 L. Ed.
1188, 1192 (1944).

We would add only one thing more to what has already been said: Other stockholders who had petitioned the District Court below to intervene in this action were referred by it to the Nevada state court. The appellants November, before they sought to intervene here, made their application to the Nevada state court. The applications of both were denied. The appellants November then sought intervention in the action below, which was resisted by the plaintiffs and defendants on the ground that the denial in the Nevada state court was *res judicata* here.

In other words, plaintiffs and defendants wanted no interference from anyone in fulfilling their plan to settle this case as between themselves.

The District Court, consistent with its attitude of *laissez-faire*, refused to hear and determine the petition of appellants November to intervene in the action. This in and of itself constituted error.

Please see Point IV, *supra*.

VI.

The District Court Erred in Failing to Grant Motions
Timely Made.

A. It Was Error Not to Grant All of Plaintiffs' Motion to
Vacate Order of Dismissal Made June 26, 1953.

This action was first dismissed on June 26, 1953. On the said date the only local attorney of record for the plaintiffs was Reich. Messrs. Louis Kipnis and Leo B. Mittelman, the New York lawyers for the plaintiffs, were not admitted, and had not qualified under the Local Rules, to practice before the District Court.

On June 26, 1953, the District Court made its order dismissing the action against all defendants. This order was made without the knowledge or consent of plaintiffs' only local attorney of record, and had been presented to the court without due compliance with its Minute Order of June 8, 1953, providing for service of the form of order on all counsel. We say without "due" compliance because a form of order was served on (1) plaintiffs' New York counsel (who it is alleged throughout this record conspired to transfer jurisdiction) and (2) apparently on a Mr. Henry Herzburn, purportedly, but not actually, attorney of record for plaintiffs [R. 42, 367].

We do not go into further details, because on Reich's motion the dismissal was set aside as having been inadvertently made [R. 132].

However, in its final order the District Court granted only partial relief whereas the motion was to vacate the whole of the order of June 26, 1953 [R. 42].

The District Court in its "Order Vacating Order Dismissing Action" entered January 12, 1954 [R. 131] set

aside the dismissal of June 26, 1953, but permitted the remainder of the order with respect to the quashing of process on Mr. Hughes to stand. This, it is respectfully submitted, constituted error for the following reasons:

The motion to vacate the *whole* of the order was unopposed, the defendants other than Hughes remaining mute and filing no papers in opposition as required by Local Rule 3(d),¹ and the only other defendant, Hughes, being represented by counsel whose motion to appear as *amicus* was denied [R. 71-72].

The motion to vacate the "inadvertent" order of dismissal of June 26, 1953, was predicated on an invalidity that went to the whole of the order, to wit: that the form of the order not having been properly served pursuant to Local Rule 7(a)² and the Minute Order of June 8, 1953, and not having been served in any event on a responsible attorney of record under Local Rule 1(d), *infra, was void on its face or at least voidable in its entirety on motion.*

¹Local Rule 3(d) Requirements for Submission:

* * * * *

"In the event an adverse party fails to file the instruments and memorandum of points and authorities provided to be filed under this rule, such failure shall be deemed to constitute a consent to the sustaining of said pleading or the granting of said motion or other application."

²Local Rule 7(a) Findings, Judgments, etc.:

* * * * *

"No document governed by this rule shall be signed by the judge unless opposing counsel shall have endorsed thereon an approval as to form, or shall have failed to file with the judge, within five days from the time of the receipt of a copy thereof, as such time is shown on the original or by affidavit of service, a written detailed statement of the objections thereto and the reasons therefor."

Cf.:

49 C. J. S. 499, Judgments, Sec. 278;

Carter v. Shensako, 42 Cal. App. 2d 9 (1940).

We do not labor this point since, to omit unnecessary technicalities, a subsequent motion was made directly attacking the quashing of the service, on Mr. Hughes, a point next considered.

B. The District Court Erred in Not Granting the Motion to Vacate That Part of the Order of Dismissal of June 26, 1953, Which Quashed Service of Process on Hughes.

When the District Court by its order of January 12, 1954, vacated the dismissal but permitted the quashing of service to stand, a motion was filed on February 4, 1954, to set aside this latter part of the order of January 12, 1955 (quashing), for fraud, mistake, and inadvertence and to open the default of the plaintiffs on Mr. Hughes' motion to quash [R. 134-135].

The motion was supported by an affidavit [R. 135-172] and should have been granted for the following reasons:

1. The District Court had statutory and inherent power to vacate that part of the order entered January 12, 1954, which quashed the service of process on the defendant Hughes and to set aside plaintiffs' default taken June 8, 1953.

Fed. Rules of Civ. Proc., 60(b);

Universal Oil Products Co. v. Root Refining Co.,
328 U. S. 575, 66 S. Ct. 1176, 90 L. Ed. 1447
(1946);

Hazel-Atlas Glass Co. v. Hartford-Empire Co.,
322 U. S. 238, 64 S. Ct. 997, 88 L. Ed. 1250
(1944).

2. A default taken in violation of an agreement amounts to an extrinsic fraud.

Johnson v. Johnson, 81 Cal. App. 2d 686, 687, 688 (1947);

McKeever v. Superior Court, 85 Cal. App. 381, 384 (1927).

The agreement in this case so far as concerned Reich and the RKO stockholders was that plaintiffs would default on the motion to quash on condition that the action otherwise would be contested. Plaintiffs' New York attorneys and defendants never intended to fulfill that agreement. This constituted fraud.

Civ. Code, Sec. 1572, subd. 4;

United States v. Throckmorton, 98 U. S. 61, 65-66 (1878).

3. Even if the conduct of plaintiffs' New York attorneys and the defendants did not constitute fraud, the moving papers supported the setting aside of the default for mistake, inadvertence and excusable neglect.

Fed. Rules of Civ. Proc. 60(b).

The mistake, inadvertence and excusable neglect or surprise was on the part of Reich who would not have defaulted had he not believed that the plaintiffs' New York attorneys and the defendants would proceed with the action below as a contested matter and not have the action dismissed pursuant to a combination to deprive the District Court of jurisdiction and to confer jurisdiction on the Nevada court.

Moreover, Rule 60(b) affords still another ground, to wit: newly discovered evidence which by due diligence

could not have been discovered until July 1, 1953, because it was not until that time that Reich discovered that the plaintiffs' New York attorneys and the defendants without his prior knowledge and consent had obtained a dismissal of the action.

It is this first dismissal of the action without the prior knowledge or consent of the plaintiffs' attorney of record which lends more than ample credence to the untried charges of collusion and the absence of a truly adversary proceedings.

Again, we do not wish to labor the point by reference to the affidavits in the record, since the District Court erred in not hearing and determining the motion.

Please see Point IV, *supra*.

C. The District Court Erred in Not Hearing and Determining Favorably the Motion for the Appointment of a Special Master to Investigate the Charges of Conspiracy and Collusion.

Universal Oil Products Co. v. Root Refining Co.,
328 U. S. 575, 90 L. Ed. 1447, 66 S. Ct. 1176
(1946);

Citrin v. Greater New York Industries, Inc., 79 Fed. Supp. 692, 696 (D. C., N. Y., 1948);

Schlessinger v. Ingber, 29 Fed. Supp. 581 (D. C., N. Y., 1939).

Cf.:

Webster Eisenlohr, Inc. v. Kalodner, 145 F. 2d 316, 323, 324 (C. C. A. 3, 1944).

Again we do not labor this point, since the District Court simply did not hear and determine.

Please see Point IV, *supra*.

VII.

The District Court Erred in Accepting and Considering Papers Filed by Mr. Henry Herzburn and Mr. Robert Silver, Purportedly Acting as Attorneys for the Plaintiffs Without Being Substituted Pursuant to the Local Rules of the District Court.

The appearances of these attorneys in this action were insidious. The name of Henry Herzburn appears first on the form of order of June 26, 1953, which he did not sign, not being the attorney of record. "Harry," actually Robert, Silver appears first in the Minutes of October 19, 1953, with Louis Kipnis as "counsel for the plaintiffs" [R. 118]. The same Minutes show that Mr. Silver, of counsel for plaintiffs, moved the admission of Mr. Kipnis to practice for the purpose of this case only. Later, Mr. Silver moved similarly for the admission of Mr. Mittelman [R. 182].

The question is: how did Mr. Silver who moved the admissions of Mr. Mittelman and Mr. Kipnis become attorney for plaintiff. The answer: he never did.

The Minutes of October 19, 1953 show that the plaintiffs, through Mr. Silver and Mr. Kipnis, moved to enjoin Reich, the attorney of record, from proceeding "as alleged counsel for the plaintiffs," and "substituting Henry Herzburn, Esq., for said Bernard Reich, Esq., as local attorney of record for the plaintiffs herein."

The District Court then announced its policy of putting the case to sleep [R. 370] and continued all proceedings to December 28 (or 29th), 1953, and so forth until July 12, 1954 [R. 351].

The only authorized appearance in this case for the plaintiffs was by Reich. It would have taken an order of court to terminate his authorization.

Rules of Civ. Proc. for the United States Dist. Ct. for the South. Dist. of Calif., 1(e), (2);

United States v. McMurtry, 24 F. 2d 145, 146 (D. C., N. Y., 1927);

Kellogg v. Winchell, 273 Fed. 745, 746 (D. C., Cal., 1921).

Moreover, until there has been a substitution, the attorney of record has the exclusive right to appear and to be recognized as attorney for the party.

Local Rules,¹ 1(e)(2) and (3);

Wells Fargo & Co. v. City and County of San Francisco, 25 Cal. 2d 37, 42-43 (1944);

Drummond v. West, 212 Cal. 766, 769 (1931).

¹Local Rule 1(d) Non-Resident Attorneys:

“Only a member of the bar of this court may enter appearances for a party, sign stipulations or receive payment or enter satisfaction of judgment, decree or order. However any member in good standing of the Bar of any United States court, or of the highest court of any State or of any Territory or Insular possession of the United States, who has been retained to appear in this court, and who is not a resident of this district, or does not maintain an office in this district for the practice of law, may be permitted after application, without previous notice, to appear, and participate in a particular case. Such applicant shall designate, in his application so to appear, a member of the bar of this court who maintains an office in this district for the practice of law, with whom the court and opposing counsel may readily communicate regarding the conduct of the case. He shall also file with such application the address, telephone number and written consent of such designee. Such permission to appear being a limited one, no certificate of admission shall be issued by the Clerk.”

Neither Mr. Herzburn nor Mr. Silver was substituted for Reich by order, stipulation, or otherwise.

Neither Mr. Herzburn or Mr. Silver nor anyone else was designated by Mr. Kipnis or Mr. Mittelman to act as local attorney of record as provided by Local Rule 1(d).²

Notwithstanding the state of the record the District Court accepted the consent of plaintiffs, through unauthorized counsel, to the first dismissal of June 26, 1953, and to the final dismissal of September 27, 1954; and the District Court sustained their objections to trying the issues of conspiracy and collusion brought against them.

In other words, plaintiffs were permitted to have their cakes and to eat them. They were permitted "to appear" in the action by other counsel contrary to law and without having to pay the price of a substitution.

²Local Rule 1(e)(2): "Whenever a party has appeared by attorney, he may not thereafter appear or act in his own behalf in the action, or take any step therein, unless an order of substitution shall first have been made by the court, after notice to the attorney of such party, and to the opposite party; provided, that the court may in its discretion hear a party in open court, notwithstanding the fact that he has appeared, or is represented by attorney."

Local Rule 1(e)(3): "When an attorney of record for any reason ceases to act for a party, such party should appoint another attorney or appear in person, and may be required so to do on motion and notice to such party. Until this is done, the authority of the attorney shall continue for all proper purposes."

VIII.

The District Court Erred in Denying Appellant Reich
His Fees and Costs Against the Defendants.

This appellant's affidavit in support of the motion for fees and costs [R. 284] alleged that he expended in excess of 810 hours, that Mr. Hughes' offer of some 23½ million dollars was now admittedly an offer to compromise, that this sum represented a dollar value to the law suits of between 2 million (the figure considered by the Delaware court) (104 A. 2d at p. 276) and 12 million (the difference between market value and the offer), and that Messrs. Kipnis and Mittelman had been paid \$125,000.00 in fees *for their defeat* in Nevada.

It was this appellant's position below that if it were not for him, Mr. Hughes would have had his way with plaintiffs and their New York attorneys, making it unnecessary to offer to purchase the assets; and that in any event his services contributed to the benefits bestowed on the corporate defendants. This appellant opposed the motion to dismiss but in the alternative moved for fees and costs against the other appellees. It was error to deny this motion.

A. An Attorney in a Stockholder Derivative Action Represents All of the Stockholders for the Benefit of the Corporation.

Trustees v. Greenough, 105 U. S. 527, 532 (1881);

Young v. Higbee Co., 324 U. S. 204, 65 S. Ct. 594, 89 L. Ed. 890 (1945);

Monaghan v. Hill, 140 F. 2d 31 (C. C. A. 9, 1944);

Meighan v. American Grass Twine Co., 154 Fed. 346, 347 (C. C. A. 2, 1907);

Greenough v. Coeur D'Alenes Lead Co., 52 Idaho 599, 18 P. 2d 288 (1932).

Because of the said principle, it is apparent that defendant appellees can take no comfort in the abortive discharge of counsel who carried on in the interests of all stockholders.

Golconda Petroleum Corporation v. Petrol Corporation, 46 Fed. Supp. 23, 26 (D C., Cal., 1942);

Walker v. Felt, 54 Cal. 386, 387, 388 (1880);

Scott v. Donahue, 93 Cal. App. 256, 258 (1928).

Headnote 8 of the *Golconda Petroleum* case, *supra*, summarizes the point of the case as follows:

"Where federal court action was brought by first corporation against second corporation involving dispute concerning oil royalties, and subsequently second corporation obtained controlling interest in first corporation, and minority stockholders of first corporation were permitted to intervene, in order to protect their rights, first corporation's motion to substitute an attorney in place of attorney first authorized to bring the action was denied, since the result would be

to have second corporation appointing the attorney to conduct litigation against itself. Federal Rules of Civil Procedure, Rules 23, 24, 28 U. S. C. A. following section 723c; Jud. Code, §24, 28 U. S. C. A., §41."

In the course of this decision the court stated (46 Fed. Supp. at p. 26):

"The motion of Golconda Petroleum Corporation, plaintiff, to substitute an attorney in the place and stead of the attorney first authorized by Golconda Petroleum Corporation to bring the action, is denied. *The ends of Justice would not be served in permitting the defendant corporation to appoint an attorney to conduct the litigation against itself.*" (Emphasis added.)

In *Walker v. Felt, supra*, the California Supreme Court held that an attorney who did not represent the real party in interest, but who filed a stipulation for dismissal because he did not wish to prosecute the action any further, had imposed and perpetrated a fraud on the court.

In *Scott v. Donahue, supra*, the California court had before it the problem as to whether a plaintiff in a class suit could defeat the rights of the class by making an assignment of its interest. The court held that the attempted substitution of counsel was a breach of the good faith owed the members of the class.

Thus RKO in this case, as in the *Golconda* case, *supra*, and the plaintiffs in this case, as the plaintiff in the *Scott* case, *supra*, cannot repudiate the appellant Reich as concerns the services he rendered the corporation and its stockholders.

- B. Since No Fund at All Is Necessary to the Jurisdiction of the Court It Was Not Necessary for the District Court to Find a Fund Within Its Jurisdiction From Which to Award Fees. Equity Will Deem the Fund or Benefit to the Corporation Before the Court.

Monaghan v. Hill, 140 F. 2d 31 (C. C. A. 9, 1944) (Appointment of Receiver);

Williamson v. Collins, 243 Fed. 835 (C. C. A. 6, 1917) (Bond issue cancelled and deed set aside);

Colley v. Wolcott, 187 Fed. 595 (C. C. A. 8, 1911), referring to *Colley v. Sapp*, 44 Okla, 16, 27-31, 142 Pac. 1193-1195 (1914) (Cancellation of mortgage and claims against corporation);

Neuberger v. Barrett, 180 Misc. 222, 39 N. Y. S. 2d 575 (N. Y. Sup. Ct., 1942) (Change in accounting practices *re* management profit-sharing plans);

Hornstein, New Aspects of Stockholder's Derivative Suits, 47 Col. L. Rev. 1 (1947), footnotes 78, 81 and 83, citing, *inter alia*:

Corash v. Texas Corp., N. Y. Law Jour., March 2, 1943, p. 830, N. Y. Sup. Ct. (Issuance of stock to shareholders);

Posen v. Cowdin, N. Y. Law Jour., June 3, 1943, pp. 2164-2165, N. Y. Sup. Ct. (Merger of two corporations and issuance of new stock.)

The attention of this Court is directed in particular to *Meighan v. American Grass Twine Co.*, 154 Fed. 346 (C. C. A. 2, 1907), where there was a fund; but, as in the instant case, it was paid directly to the corporation. The Second Circuit held that the attorney who had brought a bill in equity to enforce his attorney's lien had in fact

represented the corporation and obtained for it a large benefit, and that therefore the corporation was responsible for his fees. Thus, the court recognized an attorney's lien in a situation where there had never been a fund in court or even in the shareholders' hands.

Because of the above principles the fact that the settlement was consummated in Nevada, Delaware or New York is immaterial.

C. The Courts Will Nullify All Efforts on the Part of Defendants to Evade Payment of the Compensation Which an Attorney Is Equitably Entitled to Receive.

Hornstein, The Counsel Fee in Derivative Suits,
39 Col. L. Rev. 784, 809 (1939);

Meighan v. American Grass Twine Co., 154 Fed. 346 (C. C. A. 2, 1907);

Princeton Coal & Mining Co. v. Gilchrist, 51 Ind. App. 216, 99 N. E. 426 (1912);

Greenough v. Coeur D'Alenes Lead Co., 52 Idaho 599, 18 P. 2d 288 (1932).

Hornstein, citing authority, states (39 Col. L. Rev. at p. 809):

“The courts have nullified all efforts by defendants to evade payment of the compensation which complainant or his attorney is equitably entitled to receive. Plaintiff's counsel is held entitled to compensation where the defendants settled out of court and paid directly to the corporation the moneys sued for. He is entitled to compensation from all members of the class, even though defendants secure releases from all stockholders other than the plaintiff. *He is also entitled to compensation even though his immediate client, the complainant, may be 'bought out'*”

after successful suit, and pending or during the course of the accounting thereby ordered, or prior to payment of final judgment." (Emphasis added.)

Thus in the instant case, the fact that plaintiffs and their New York counsel settled both the action and the question of counsel fees with Messrs. Kipnis and Mittelman in Nevada does not bar plaintiffs' California counsel of record from obtaining compensation.

As stated in the *Greenough* case, *supra*, the question still is whether the settlement was induced in whole or in part by the action below.

D. The District Court's Memorandum Granting Motion to Dismiss [R. 356] Analyzed With Respect to Fees and Costs.

First, we quote from it:

"The motion of local counsel, Bernard Reich, for attorney's fees and costs must be denied. Local counsel was employed to bring this action by New York counsel for plaintiff-shareholders Castleman. Employing counsel has been the recipient of an award of attorney's fees made in the Nevada action heretofore referred to. Local counsel must look to his employer and not to this court for his fee. Even if this were not the case the court could not make an award of fees to local counsel because the Nevada court has held that no counsel representing plaintiffs Castleman in actions pending elsewhere is entitled to any fee other than that allowed by it."

Then, breaking it down:

1. "The motion (sic) of local counsel, Bernard Reich, for attorney's fees and costs must be denied."

The District Court's decision is obviously addressed to counsel's motion for attorney's fees and costs against the defendants.

Since there were probably about a half dozen motions pending on July 12, 1954, the court must be forgiven for overlooking the second motion for attorney's fees and costs *against plaintiffs*.

2. "*Employing counsel has been the recipient of an award of attorney's fees made in the Nevada action heretofore referred to.*"

While employing counsel did eventually receive \$125,-000.00 counsel fees, the order of the Nevada Court directed that payment be made to *the plaintiffs* to "cover all fees for *all attorneys who appeared in any action, wherever pending, on behalf of Eli B. Castleman, et al.*" [R. 238.]

Plaintiffs therefore received the fees in trust for all attorneys who appeared in any action, wherever pending, including the California action; and thus local counsel Bernard Reich's motion for fees herein against the plaintiffs who actually received the money was perfectly valid.

3. "*Local counsel must look to his employer and not to this court for his fee.*"

Of course, counsel was not looking to the Court for his fee. As pointed out, *infra*, he was looking to his clients but with the help of the Court to which he was entitled.

4. "*Even if this were not the case this court could not make an award of fees to local counsel because the Nevada court has held that no counsel representing plaintiffs Castleman in actions pending elsewhere is entitled to any fee other than that allowed by it.*"

Paragraph 7 of the Final Order of the Nevada Court, filed April 15, 1954 provided [R. 238]:

7. "That the plaintiffs Eli B. Castleman, *et al.*, on their motion, have established that they are entitled to recover from such fund their reasonable expenses; that a reasonable allowance to them for such expenses is as follows:

For attorneys fees	\$125,000.00;
For accountants fees	\$ 25,000.00;
For disbursement for expenses of their attorneys	\$ 8,000.00;
For disbursement for expenses of their accountants	\$ 2,000.00;

*that such allowance shall cover all fees of all attorneys who have appeared in any action, wherever pending, on behalf of Eli B. Castleman, *et al.*, the plaintiffs in this action, and all accountants or others who have rendered any services on their behalf, whether or not such attorneys or accountants have appeared in this Court."* (Emphasis added.)

The Nevada Court, therefore, did not deny counsel fees to Bernard Reich. In the first place the Nevada Court had no jurisdiction to deny fees of counsel in other actions and in other jurisdictions. In the second place Reich was not before the Nevada Court and made no application to that Court. In the third place the Nevada Court awarded fees to the plaintiffs for all counsel, including Reich.

IX.

The District Court Erred in Denying Appellant Reich Fees and Costs Against His Clients, the Plaintiffs.

A. An Attorney Discharged Without Good Cause Is Entitled to His Attorney's Fees on Motion in the Action Which He Was Retained to Prosecute.

Woodbury v. Andrew Jergens Co., 69 F. 2d 49, 50, 51 (C. C. A. 2, 1934);

McCartney v. Guardian Trust Co., 280 Fed. 64 (C. C. A. 8, 1922);

John Griffiths & Son Co. v. United States, 72 F. 2d 466, 468 (C. C. A. 7, 1934);

Ingold v. Ingold, 30 Fed. Supp. 347, 348 (D. C., N. Y., 1939);

Casebolt v. Mid-Continent Airlines, 85 Fed. Supp. 915 (D. C., Minn., 1949).

In the *Ingold* case, *supra*, the Court stated:

"This action, which involves a considerable sum of money, was discontinued after issue joined, by the plaintiff and defendant entering into a stipulation, in and by which they consented to the dismissal of the action. The action is based upon contract; the stipulation was made and entered into and signed by the plaintiff without the knowledge or consent of her attorney, and made and entered into by the defendant with knowledge, either actual or constructive, that the plaintiff's attorney had an interest in the lawsuit by way of his fee.

"True, the plaintiff did discharge her attorney at or about the time of the signing of the stipulation of discontinuance, and the client has a right to discharge her attorney, where he is hired on a contract,

his payment to be a contingent fee, any time before the contract, by its terms is to expire, but the client is liable for the services rendered if the discharge is wrongful. *E. Chase Crowley v. Laura A. Wolf*, 281 N. Y. 59, 22 N. E. 2d 234, decided July 11, 1939.

* * * * *

"The pertinent part of Rule 41 of the Federal Rules of Civil Procedure, 28 U. S. C. A. following section 723c, namely, Rule 41(a)(1), was never intended as a cloak whereby a client might settle or discontinue a lawsuit, and disregard entirely the interest of the attorney in the lawsuit. As a matter of fact, Rule 41 was intended for the purpose of setting forth and curbing the right of a plaintiff to discontinue actions, and simplify a practice which heretofore has never been clearly outlined."

B. Notwithstanding a Contingent Fee the Attorney on Discharge Without Good Cause Is Entitled to a Fixed Fee From His Clients.

Woodbury v. Andrew Jergins Co., supra;
John Griffiths & Sons Co. v. U. S., supra;
Ingold v. Ingold, supra.

In its memorandum of August 5, 1954, the District Court stated that counsel should look to his employer for his fee. While it is true that local counsel was employed by New York counsel, Messrs. Kipnis and Mittelman, they acted as agents for the real employers, the plaintiffs. It may be, and it probably is, the fact that Messrs. Kipnis and Mittelman are also liable to local counsel. Nevertheless it is the clients, the principals, who are primarily responsible to local counsel as it was they who, in law, employed the appellant Reich.

Thus, counsel has looked to his employer in this action and the District Court was in error in refusing to entertain jurisdiction to make the award.

In this connection the court may have had the duty to determine whether the discharge was for cause or not. The court could have decided the motion for fees against the plaintiffs on the ground that the discharge was for cause. It made no such determination. It in effect ruled that it had no jurisdiction. In this the District Court was in error.

Moreover the District Court was not always of the same opinion. It once allowed, that fees, if any, would be "mighty small" [R. 371], that counsel should be paid a reasonable fee [R. 372], and that if counsel could not agree on fees, it would fix them [R. 375].

We do not labor the point of amount, since the court refused to exercise the power it undoubtedly possessed.

Conclusion.

" . . . [A]s far as this court is concerned it is going to put this case to sleep . . . I am not going to hear it and I am not going to do anything with it that I don't have to do . . . I am not going to bother with this mess" [R. 370].

Thus, did the District Court frankly and sincerely express its motivations and the basis for its action or inaction.

Counsel saw his sworn duty to the Court and to the stockholders differently. From the transcript [R. 371]:

"Mr. Reich: May I address the court for just a few minutes? I promise to be very brief.

The Court: Yes. It doesn't do any good to get into an argument with you.

Mr. Reich: I will stipulate that my fees may be small. I will stipulate you don't have to fix fees at all.

The Court: You don't have to so stipulate.

Mr. Reich: Your Honor, it is important that my position be stated.

The Court: I think I understand your position. And I think if they want to fire you out of the case they should pay you for what services you have rendered. If they won't let you finish your contract I think like anything else, you should be paid a reasonable fee for your services. But I would dislike very much to be holding onto a case when the client wants to fire me.

Mr. Reich: Assume that you are practicing law instead of occupying the bench and assume—

The Court: If I had been practicing law this case wouldn't have been here.

Mr. Reich: Well, your Honor, if you had information that I have—assuming that you had certain information which led you to believe that the stockholders weren't being properly represented wouldn't you feel it was your duty to the court to apprise the court after you had tried to have an understanding with counsel on the other side so that he does represent the clients.

I haven't come to this court. I have been brought into this court. This action was dismissed, your Honor, without my knowledge. Certainly you would have felt the duty as a lawyer as I did to set the record straight—that you had nothing to do with that, particularly if you felt that the roof may fall on top of these plaintiffs' attorneys—that the truth may come out and you didn't want to have anything to do with it.

You would have to come to court just as I did, I am sure, your Honor, and move to vacate a dismissal which had been inadvertently obtained without the only local responsible attorney of record even knowing about it.

The Court: I think you lawyers should get together in an arena of your own and fight it out and settle this case between the lawyers as to who is who in the case without intervention on my part. It is a spectacle to find lawyers fighting among themselves. It doesn't bring any credit upon anybody.

Mr. Reich: Well, your Honor, what would you do about it? What could I do about it? You advise me and I will do it. I just want to do what is right. You tell me what to do and I will do it.

The Court: I am not telling you what to do."

The judgment should be reversed and the case remanded for trial and for other proceedings, including hearings on the petition to intervene, the motion for the appointment of a Special Master, the motion to vacate in part the Order entered January 12, 1954 (quashing process on appellee Hughes), or approval of compromise under Rule 23(c) of the Federal Rules of Civil Procedure, and the motions (2) for attorney fees and costs.

April 1955.

Respectfully submitted,

BERNARD REICH,

Attorney for Appellants.

APPENDIX.

Extract From Reporter's Transcript of Proceedings Had July 12, 1954 [R. 376-381].

MR. REICH: May it please the court. I first used that form of address, your Honor, on December 14, 1937 before one of Mr. McDonald's courts, the appellate division, First Department, in New York City, "May it please the court."

That was the day after I took the oath as an attorney in the same department and in the same court.

I took the oath again as an attorney in this court before the late Judge O'Connor. I was in uniform. And before I was permitted to wear the uniform of our country, your Honor, I took still another oath and notwithstanding what I heard the court say this morning, that he thought the action should be dismissed and that no award should be made to me, and that while I did a lot of work I brought this all on myself.

I say to your Honor notwithstanding that and sincerely I feel that I have lived up to those oaths that I took and to the spirit of those oaths.

If I go out of this courtroom defeated and routed, for the moment, I would do the same thing all over again. I think I did and complied in this case with what a lawyer is called upon to do and I want to say this, that in this era of fear and fright and subpoenaing of Supreme Court Justices, perhaps even the ex-President of the United States, more than ever now I think that the courts of this country are the real bulwark of democracy and as I think I have had occasion to say to this court before, I think the United States Supreme Court opens, and some of the courts here, open with "God Bless this Honorable Court."

I say it too and I say this knowing also what you said this morning, that I am the real optimist in this court-room because I have faith in the courts of this country.

I heard the Chief Justice in San Francisco say, your Honor, that the poor and the little people needed advocates and lawyers.

I am one of those little people and I represent little people and what this case stands for to me is the attempt to push little people around, and I thank God that I am an attorney and I can practice before these courts and I can be heard and I can state what I know is going on in this case.

Now, in the ordinary case—the ordinary plaintiff, the ordinary defendant, your Honor, the lawyer for either one of the two has the duty which transcends his particular duty to the particular client to be truthful to the court and to abide by his oath. That is true in any case. It is especially true in a class suit where somebody comes to this court with 2500 shares of stock out of 4,000,000 shares of stock and says: "There is an action which I want to bring, not for myself, for my 2500 shares, but for all the stockholders."

I am concerned now because it would seem, perhaps, that your Honor has not and I want to place in the record if I may, your Honor, as part of these proceedings being held today, what your Honor stated on Monday, October 15, 1953. This is on page 13, line 24.

This is what you said among other things. I am starting on line 24. You said this—I think it was perhaps to all counsel—maybe not to me alone or perhaps you were saying it to me. You said:

"You are going to get attorney fees but if any attorney fees are fixed in this court they are going to be mighty small if I ever get around to fixing attorney fees. You will wish you had never hit this court, any of you, because I think that if there is any recovery that comes through this court the stockholders are going to get the benefit of it because I feel this case is primarily a lawyers' case all the way through."

And also as part of this record, if your Honor pleases, on the same date and at page 33 beginning with line 21:

"I know what counsel has brought up. I still stand by my assertion that this is a lawyer's fight. I pity the stockholders if there is any recovery. I wish I had the fixing of the fees. If I did I know no one would want to try the case in my court because I would certainly see that the stockholders got whatever recovery there is."

I feel that what your Honor said this morning is absolutely consistent with what you said on October 19, 1953.

I had hoped, your Honor, that by this late date you would have seen that what I was trying to do had nothing to do with a lawyers' fight as such.

Maybe I was misguided in some way but I thought I owed the court the duty to set forth the facts as I knew them—as Chief Judge Denman thought they should be done in that Independence Coal Mine case.

I say this is not a fight among lawyers except collaterally. It has to be a fight among lawyers if lawyers are going to be participants in the charges that are being

made. Obviously lawyers are going to defend themselves in a situation but what I think this case stands for is whether or not the defendants can pick their arena and make the plaintiffs, who represent a small share of stock, do their bidding and then try to hold prior proceedings bound by what was done in Nevada.

"Now, there are three principal matters before your Honor today. One is the defendant's motion to dismiss. The other is my motion for fees against RKO.

"But I go further than that, your Honor. I say that in a stockholders suit or in any suit, as a matter of fact, where there is a charge of collusion that charge must be tried.

"We will take a divorce case, Williams against North Carolina. Each court has a right to say that the judgment that you obtained out of the state was collusive and therefore we are going to try that issue of collusion.

"That is even more the point in a representative stockholders suit when the very rule, 23, was made to make sure there was not collusion.

"Now, they have got something there, they think. They say that Judge McNamee found under Rule 23-C that there was no collusion. That ends it. That is like pulling yourself up by your bootstraps. I charged collusion in this court. I have evidence of the collusion. I have put it in affidavit form.

"I have also shown that there wasn't—if I haven't shown collusion I have at least shown, let us put it that way, that there was no truly adversary proceeding in Nevada. The plaintiffs were not trying their best. They were interested in whitewashing Mr. Hughes."

IN THE
UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

ELI B. CASTLEMAN, MARION V. CASTLEMAN, LOUIS FEUERMAN, JULIUS NOVEMBER, ELEANOR NOVEMBER and BERNARD REICH,

Appellants,

vs.

HOWARD R. HUGHES, RKO PICTURES CORPORATION, RKO RADIO PICTURES, INC., THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK, ELI B. CASTLEMAN, MARION V. CASTLEMAN and LOUIS FEUERMAN,

Appellees.

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MAY 27 1955

INDEX

	PAGE
STATEMENT OF CASE	1
THE FACTS	3
A. The Institution by the Castlemans of Successive Suits Against Hughes in New York, California and Nevada	3
B. The First Dismissal of the Suit Below and its Vacation	6
C. Reich's Charge of Collusion	6
D. Hughes' Offer, Litigation Thereon and the Entry of Final Judgment in Nevada	7
E. Radio's Motion to Dismiss Below and Reich's Motions for Counsel Fees	9
F. Proceedings Since Judgment Below	10
ISSUES	10
ARGUMENT	10
I. The dismissal below over Reich's charges of collusion was correct	10
A. Plaintiffs Below and All RKO Stockholders Are Bound By the Nevada Judgment	10
B. The Notice to RKO Stockholders of the Motion to Dismiss Was Adequate	19
C. In Any Event, Any Question of the Fairness of the Compromise Effected by the Sale to Hughes Is Now Foreclosed	22
II. No further counsel fees can be assessed against Radio	23
III. No other acts or omissions of the Court below are presently reviewable	27
CONCLUSION	28

TABLE OF AUTHORITIES

A. Cases

	PAGE
<i>Cohen v. Young</i> , 127 F. 2d 721 (6th Cir., 1942)	11, 12, 14, 21
<i>Diamond v. Davis</i> , 62 N. Y. S. 2d 175 (Sup. Ct., N. Y., 1945)	26
<i>Ex parte Gray</i> , 47 S. 286 (Ala., 1908)	27
<i>Malcolm v. Cities Service Co.</i> , 2 F. R. D. 405 (D. Del., 1942)	21
<i>Mann v. Superior Court of Los Angeles County</i> , 53 Cal. App. 2d 272, 127 Pac. 2d 970, 975 (1942)	27
<i>Masterson v. Pergament</i> , 203 F. 2d 315 (6th Cir., 1953)	11, 14, 17
<i>May v. Midwest Refining Co.</i> , 121 F. 2d 431, 440 (1st Cir., 1941)	21
<i>Mullane v. Central Hanover Bank & Trust Co.</i> , 339 U. S. 306, 314-315 (1950)	20
<i>Pergament v. Frazer</i> , 93 F. Supp. 13 (E. D., Mich., 1950), aff'd. 203 F. 2d 315 (6th Cir., 1953), cert. den. 346 U. S. 832 (1953)	13, 15
<i>Perrine v. Pennroad Corp.</i> , 51 A. 2d 327 (Chan. Del., 1947) aff'd 64 A. 2d 412 (Del., 1948)	26, 27
<i>Piccard v. Sperry Corp.</i> , 36 F. Supp. 1006 (S. D. N. Y., 1941), aff'd. 120 F. 2d 328 (2nd Cir., 1941) ..	12, 21
<i>Pottish v. Divak</i> , 71 F. Supp. 737 (S. D., N. Y., 1947) ..	13, 14
<i>Schiff v. RKO Pictures Corp.</i> , 104 A. 2d 267 (1954) ..	7, 8, 22
<i>Stella v. Kaiser, et al.</i> , 218 F. 2d 64 (2nd Cir., 1954) ..	15, 17, 21
<i>Upson v. Otis</i> , 155 F. 2d 606 (2nd Cir., 1946)	13
<i>Waterman Corp. v. Johnston</i> , 122 N. Y. S. 2d 695 (Sup. Ct., N. Y., 1953)	26
<i>Webster Eisenlohr, Inc. v. Kalodner</i> , 145 F. 2d 316 (3rd Cir., 1944) 325	21
<i>Winkelman v. General Motors Corporation</i> , 48 F. Supp. 490 (S. D. N. Y., 1942)	13, 26

B. Statutes and Rules

	PAGE
CALIF. CORP. CODE, § 834	5
FEDERAL RULES OF CIVIL PROCEDURE, RULE 23(c)	3
NEVADA RULES OF CIVIL PROCEDURE, RULE 23(c)....	3, 7, 11
	12, 14, 15, 19, 21, 22

C. Texts

49 C. J. S., JUDGMENTS, § 434-b	11
13 FLETCHER, CYCLOPEDIA CORPORATIONS (REV. ED.) § 6045	24
1 FREEMAN ON JUDGMENTS (5TH ED., 1925), §§ 305, 317	11
HORNSTEIN, Counsel Fees in Stockholders' Deriva- tive Actions, 39 Col. L. R. 784, 803 (1939)	27
3 MOORE'S FED. PRAC., § 23.08	3

UNITED STATES COURT OF APPEALS
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Appellants,

vs.

HOWARD R. HUGHES, RKO PICTURES CORPORATION, RKO RADIO PICTURES, INC., THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK, ELI B. CASTLEMAN, MARION V. CASTLEMAN and LOUIS FEUERMAN,

Appellees.

No. 14573

BRIEF OF APPELLEE RKO RADIO PICTURES, INC.

Statement of Case

This "appeal" is from a final judgment of the District Court, Southern District of California, Central Division (Hon. BEN HARRISON, D. J.) in a stockholder's derivative action.¹ The judgment (a) dismissed the cause with prejudice and (b) denied to appellant Bernard Reich, Esq., counsel fees and costs (R. 360-61).

¹ The action below was styled *Eli B. Castleman and Marion V. Castleman, doing business as Wolverine Textile Company, and Louis Feuerman, Plaintiffs, against, Howard R. Hughes, RKO Pictures Corporation, RKO Radio Pictures, Inc. and The Chase National Bank of the City of New York, Defendants.*

This appellee, RKO Radio Pictures, Inc. ("Radio" herein), contends that the dismissal was correct and that the refusal to assess any counsel fees against Radio was proper.

Designated as "appellants" are five stockholders of RKO Pictures Corporation ("RKO" herein, as distinguished from "Radio"). Three of these stockholders—the two Castlemans and Feuerman (herein collectively called "the Castlemans")—were plaintiffs below and, strangely enough, appear on the appellate docket also as appellees. The remaining two stockholders—the Novembers—were seeking leave to intervene at the time of judgment (R. 174-181; 351-2).

The sixth "appellant" is Bernard Reich, Esq., formerly attorney in California for the Castlemans (R. 152-8), who also presented the intervention motion on behalf of the Novembers (R. 174-181). Reich separately moved on his own behalf for counsel fees and costs both as against the defendants (R. 283 *et seq.*) and against the Castlemans (R. 263 *et seq.*).

Appellees in this Court are the Castlemans, plaintiffs below, and Radio. Jurisdiction over RKO and The Chase Bank was never attempted or secured below. Reich at one point did attempt to serve the individual defendant, Howard R. Hughes, by leaving a summons and amended complaint with a hotel clerk, a service which ultimately was quashed (R. 40, 131). Since the Court below did not have jurisdiction over these three defendants, they are not before this Court.

Radio, then a wholly owned subsidiary of RKO, was the only defendant before the Court at the time of dismissal. Its presence in the case was somewhat anomalous: no plaintiff owned stock in Radio and, of course, no relief was sought for or against it.

The Facts

In its major aspect, this case involves merely a controversy over attorney's fees between Reich, on the one hand, and his employer, Louis Kipnis, Esq. of New York, on the other.

This controversy stems from Reich's retention by Kipnis to represent the Castlemans—Kipnis' clients—in a derivative stockholders' action filed in California on behalf of RKO against Hughes. All claims of the Castlemans, the nominal plaintiffs for whom both Kipnis and Reich acted, went to judgment in another derivative action filed by them in Nevada, as the result of a compromise and settlement consummated in compliance with Rule 23(c) of the Nevada Rules of Civil Procedure, identical to Rule 23(c) of the Federal Rules of Civil Procedure (R. 41).¹

The following major facts, stated here without characterization, are largely beyond reasonable controversy.

A. The Institution by the Castlemans of Successive Suits Against Hughes in New York, California and Nevada

In October, 1952 the Castlemans, represented by Louis Kipnis, and Leo Mittelman, Esq., both of New York, formally demanded of RKO that it institute suit against Howard R. Hughes, RKO's Board Chairman and principal stockholder, for (a) an accounting of profits allegedly

¹ Paragraph (c) of Nevada's Rule 23 covering "Class Actions" reads in so far as pertinent as follows: "A class action shall not be dismissed or compromised without the approval of the court. If the right sought to be enforced is one defined in paragraph (1) of subdivision (a) of this rule notice of the proposed dismissal or compromise shall be given to all members of the class in such manner as the court directs . . ."

Derivative stockholder actions undeniably come within the purview of Rule 23(a)(1). See 3 Moore's Fed. Prae., § 23.08.

made by him in a sale of his stock interest in RKO and for (b) an accounting for alleged waste and mismanagement (R. 27-8). Shortly thereafter Kipnis instituted a stockholders' derivative action in the New York State courts and moved for appointment of a receiver of RKO (R. 100; 136-7). Hughes, concededly the principal defendant but a non-resident of New York, was never served and never appeared in the New York action (R. 153; 319).

On December 13, 1952, Kipnis, on the recommendation of a mutual friend, retained Reich on a contingent basis to institute a companion "stand-by" suit on the Castlemans' behalf in California (R. 153-4; 319-20). This action was filed in the District Court below on December 15, 1952, but no attempt was made to serve any defendant at that time.

A few days later Kipnis met with Hughes' attorney under the auspices of Floyd Odlum who, at Kipnis' request, had volunteered to act as an intermediary (R. 154-5; 320-1). At this meeting Kipnis learned that Mr. Hughes was in fact a resident of Nevada (R. 320).

On December 23, 1952—eight days after the filing of the California suit—a third Castleman action was started in the Eighth Judicial District Court of Nevada, Clark County, at Las Vegas (R. 184). Reich was not included in this action as one of the Castleman attorneys. The Nevada complaint was in all material respects identical with that in the California action except that, in addition to Hughes, the Hughes Tool Company and all directors of RKO were named as defendants (R. 187). Hughes, the other individual defendants and Hughes Tool Company answered. RKO and Radio thereafter also answered and the Nevada action thus came to issue as the only case over which personal jurisdiction had been or, in all likelihood, could be obtained over all the widely-scattered defendants (R. 239-240).

Having obtained jurisdiction over Hughes in Nevada, Kipnis withdrew the receivership application in the New York suit and eventually that action was voluntarily dismissed without further proceedings.

Meanwhile, in the Court below Reich was quiescent until March 4, 1953, when, after consultation with Kipnis, he filed an amended complaint. Thereafter he purported to effect service on Hughes by having the marshal leave a copy of the summons and amended complaint with the clerk of the Beverly Hills Hotel (R. 138). Radio was served with process and also with a notice to take Hughes' deposition.

Reich and Kipnis, his employer, are in dispute as to whether Reich was authorized to direct this service of process in what both had originally considered a "stand by" action (R. 142-3), a status even more appropriate now that the same charges were at issue in Nevada. In any event, the filing of the amended complaint constituted the last affirmative step admitted by both to have been taken by Reich in furtherance of the terms of his retainer by Kipnis. Certainly from the time of service on Radio and purported service on Hughes, Kipnis and Reich were at odds over the course of the California action. Without detailing the progress of this struggle (R. 140-7), we note that, on May 7, 1953, Kipnis took the final step of discharging Reich and asking that he consent to a substitution of counsel (R. 157).

During a lull in his battle with New York counsel, Reich, on May 22, 1953 signed a stipulation approved by the Court three days later *staying all proceedings until after determination of a motion by Radio for security for costs* (R. 37-8). See Calif. Corp. Code, § 834. The security motion was never disposed of and, accordingly, Radio was never called upon to answer the California complaint.

Every step taken by Reich as against Radio after May 25, 1953, in either the Court below or here, directly violated that stipulation.

B. The First Dismissal of the Suit Below and its Vacation

After a hearing before the Court below on June 8, 1953, Judge Harrison entered an order on June 26th quashing Reich's purported service on Hughes and dismissing the complaint on the ground that an identical action was pending and then at issue in Nevada (R. 40-2).

On Reich's motion this order in so far as the dismissal was concerned was vacated on October 5, 1953 (R. 71-2; 131-3). Thereafter Judge Harrison periodically continued all matters pending a final disposition of the Nevada case (R. 118-121; 121-2; 122-3; 173-4; 181-3).

In the course of these proceedings, Judge Harrison made his knowledge as to the ability and integrity of the judge before whom the Nevada action was pending a matter of record (*e.g.*, R. 370). Reich has never explicitly questioned the accuracy of Judge Harrison's views.¹

C. Reich's Charge of Collusion

Faced with the prospect that a decision in the Nevada action—in which he was not of counsel—would be *res judicata* in the California suit, Reich, in October of 1953, began persistently and recklessly to charge the defendants and plaintiffs' New York counsel, Kipnis, with "collusion in submitting the action to the Nevada court" (R. 95).²

This charge was not confined to the forum below. Reich corresponded directly with Judge McNamee of the Nevada Court inviting an investigation of the manner and means

¹ Reich's later collusion charge must be regarded as reflecting implicitly upon the competence, if not the integrity, of the Nevada Court, since that Court was advised of the charge, considered it and expressly rejected it.

² Prior to this belated assertion of "collusion," Reich had made clear to Kipnis that he would be satisfied if he were included as co-counsel in the Nevada action (R. 322-3).

by which the Castleman action had come to issue before that Court (R. 99-105). He refused or failed to appear, however, when, on motion by Hughes, the Nevada Court heard the matter (R. 116-18). In fact, Reich—in all of his subsequent reiterations of the charge of collusion—never passed from the realm of insinuation and innuendo into an area of probative evidence or even legitimate inference.

The Nevada Court, in accord with the duty imposed upon it by Rule 23(c) of both the Nevada and Federal Rules, remained cognizant of the collusion charge and ultimately disposed of it in its findings (R. 223-5) prior to the entry of final judgment.

D. Hughes' Offer, Litigation Thereon and the Entry of Final Judgment in Nevada

From the date of instituting the Nevada suit, the Castleman attorneys engaged actively in preparation of that action for trial. Twenty-one witnesses—including Hughes—were examined on deposition. Voluminous files of RKO were inspected, and scores of documents were selected and marked as exhibits (R. 187).

On February 7, 1954, Hughes (R. 195 *et seq.*) offered to buy all of the assets of RKO, *including all pending stockholders' suits*, at a price equivalent to \$6 per share of stock outstanding. Hughes further offered to vote his stock in favor of reducing the corporation's capital through the redemption of all stock (except his own) at that price (R. 195 *et seq.*). The net effect of this offer clearly was to cut through the various pending controversies and to extinguish all stockholder suits (R. 195; 200-1).

Litigation ensued in the Chancery Court in Delaware, the state of RKO's incorporation. The validity of the proposed sale of assets, the propriety of including therein the offer for any claims asserted in the stockholders' actions, and the fairness of the offer were upheld (see *Schiff v. RKO Pictures Corp.*, 104 A. 2d 267 [1954]) in a proceeding which

Reich has never questioned and which he specifically concedes to be *res judicata* (Brief, pp. 19-20). The offer was thereafter accepted by an overwhelming majority of all non-Hughes stock at a special meeting of RKO stockholders called for the purpose on March 18, 1954 (R. 188; 220).

In February, 1954, anticipating the acceptance of his offer, Hughes moved to dismiss the Nevada action with prejudice. Pursuant to direction of the Nevada Court (R. 212-3), notice of hearing of this motion in form prescribed by that Court, together with a copy of the notice of motion itself, was furnished to all RKO stockholders (R. 188-9; 200-3; 227; 236). On March 22, 1954, the return day of the motion, various stockholders—including the Castlemans and the appellant Novembers—appeared in person or by counsel before the Nevada Court and a hearing ensued (R. 189, 226).

On March 30, 1954, the Nevada Court filed extensive findings of fact and conclusions of law (R. 214-225) and entered an interlocutory order pursuant to Rule 23(c) approving the sale of RKO's assets to Hughes as a compromise and settlement of the action (R. 226-8). On April 1, 1954, after consummation of the sale of the assets (R. 192-3), the Nevada Court entered a final judgment dismissing the action with prejudice as to all defendants, retaining jurisdiction only for the determination and allocation of all costs and fees allowable to any stockholder plaintiffs in any action "wherever pending" (R. 231-2).

On April 5, 1954 after due notice to all counsel who had appeared of record in any of the derivative actions against Hughes (R. 235-37),¹ the Nevada Court awarded to the

¹ In addition to the Castleman suits in Nevada and California, there were also pending on April 1, 1954 four other stockholder suits against Hughes in the Federal and State Courts of California and in the New York State Courts (R. 217-9). The Schiff action in Delaware had been decided March 26, 1954 (104 A 2d 267).

Castlemans \$160,000, being \$125,000 for counsel fees, \$25,000 for accountant's fees and \$10,000 for disbursements. This award, as specifically provided therein, was to "cover all fees for all attorneys who have appeared in any action, wherever pending, on behalf of Eli B. Castleman, et al., the plaintiffs in this action . . ." (R. 238).

E. Radio's Motion to Dismiss Below and Reich's Motions for Counsel Fees

With the Nevada case at an end, Radio moved below to dismiss the California suit on the ground that the final judgment in Nevada was *res judicata* (R. 184-6).¹

Reich thereupon renewed all motions which had been previously continued by Judge Harrison and filed separate motions to assess his counsel fees against either the defendants or the plaintiffs, or perhaps both (R. 263; 283).

After continuing the matter for the submission of briefs (R. 351-2), Judge Harrison handed down a memorandum on August 5, 1954, granting Radio's motion to dismiss upon two grounds: (a) consummation of the sale of all causes of action to the alleged principal wrongdoer, declared valid in the Delaware Chancery Court, rendered the action moot; and (b) the Nevada judgment was *res judicata* as to all issues tendered in the California complaint (R. 356-7).

Judge Harrison denied Reich's motion for attorneys' fees on the ground that he had been employed by the Castlemans' New York counsel who, in turn, had been the recipient of an award of fees in the Nevada action (R. 357).

After a duly noticed hearing on objections (R. 357-8, 359), the final judgment from which "appellants"—that is to say, Reich—appeal was entered September 27, 1954 (R. 360-1).

¹ Prior to the entry of judgment in Nevada, the plaintiffs amended their complaint to comprehend in all respects the additional matters which had been alleged in the amended complaint below filed by Reich on March 4, 1954. This fact was duly noted in the Nevada judgment (R. 217).

F. Proceedings Since Judgment Below

This Court has been informed that Reich is presently suing Kipnis in the state courts of New York for \$64,050.37 as his claimed share of the counsel fees awarded to the Castlemans in Nevada. See the affidavit of Louis Kipnis sworn to November 18, 1954, filed in this Court in support of the motion by plaintiffs below to dismiss this appeal.

Issues

We respectfully submit that only two issues survive the welter of charge and countercharge:

1. Was the District Court correct in dismissing the action below on either of the grounds set forth in its memorandum of August 5th?
2. Did the District Court err in refusing to make an award of counsel fees to Reich against defendant-appellee RKO Radio Pictures, Inc.?

Argument

I.

The dismissal below over Reich's charges of collusion was correct.

A. Plaintiffs Below and All RKO Stockholders Are Bound By the Nevada Judgment

It is as elementary as hornbook law that the plaintiffs below—the Castlemans and Feuerman—having been also plaintiffs in the Nevada suit, are barred and estopped from attacking the Nevada judgment collaterally. By their appointed counsel they participated in all hearings and proceedings leading to that decree. They accepted its benefits; did not appeal and consequently are bound. By the

same token, Reich, erstwhile California counsel to these plaintiffs, stands in privity with them and is also barred and estopped from attacking the Nevada judgment collaterally. 49 C. J. S., Judgments, § 434-b; 1 Freeman on Judgments (5th Ed., 1925), §§ 305, 317.

Moreover the "appellant" Novembers also appeared at and were free to participate in the hearing in Nevada which resulted in that Court's Final Judgment of April 1, 1954 (R. 236). Since the Novembers did not appeal the Nevada judgment, as was their right after court approval of the compromise and settlement (see, e.g., *Masterson v. Pergament*, 203 F. 2d 315 [6th Cir., 1953]; *Cohen v. Young*, 127 F. 2d 721 [6th Cir., 1942]), they also are foreclosed from collateral attack.

Merely as an individual, Reich obviously has no standing whatsoever; not being an RKO stockholder, he is not aggrieved by either the Nevada judgment or the judgment below. Reich, in the most charitable light, is a mere volunteer without even a shadow of justiciable interest in the matters involved in these stockholders' actions.

Although these facts render this appeal wholly groundless, we nevertheless—and without waiving the point—assume *arguendo* that this appeal is by members of the litigating class within the meaning of Rule 23(a)(1) who received the notices of the Nevada proceedings sent all RKO stockholders, but who failed to appear at the hearing pursuant to such notice.

Even on this assumption, it must be conceded that, upon unquestionable principles of *res judicata*, the action below was properly dismissed.

In an obvious attempt to forestall dismissal, Reich charged that the Nevada action was collusive or, at least, non-adversary. He asserted that such a charge required the California court to permit his collateral attack on the Nevada judgment even though the precise subject matter of his collusion charge had been raised in the course of the

Nevada proceedings (R. 98-114) and had been specifically determined by that Court as being without substance (R. 223-5).

Reich's contentions in this regard are unsupported by authority. The cases upon which he purports to rely all share the same vital flaw. None meets the question at bar, namely:

Where a stockholder's derivative action, after due notice to all other stockholders pursuant to Rule 23(c), has terminated in a final judgment based upon judicial examination and approval of a settlement of the controversy, can a dissatisfied stockholder avoid the normal *res judicata* operation of such judgment by a collateral attack in a foreign jurisdiction based upon a claim of collusion?

Reich's failure to find any authority for the affirmative is not surprising. It is the natural result of his failure to comprehend the rationale behind Rule 23(c)'s requirement of court approval after notice to all stockholders. This Rule not only required the Nevada Court to consider the bona fides of the action and of, its compromise, but also imposed upon each stockholder the obligation of coming forward with any claim of vitiating collusion in the Nevada Court or being forever barred from contesting that issue in any action pending elsewhere.

These principles are fully settled.

Rule 23(c) is designed to protect the corporation's interests in the proposed settlement or compromise.

Piccard v. Sperry Corp., 36 F. Supp. 1006 (S. D. N. Y., 1941), aff'd. 120 F. 2d 328 (2nd Cir., 1941).

The court must ascertain from all pertinent sources the actual extent of probable liability. Approving a settlement solely upon the advice of counsel for the parties without independent study is reversible error.

Cohen v. Young, 127 F. 2d 721 (6th Cir., 1942).

A more than casual study of the legal theories involved and an analysis of the evidence in support of each side's claim is required. To accept or reject a proposed settlement or compromise without such scrutiny is an abuse of discretion.

Upson v. Otis, 155 F. 2d 606 (2nd Cir., 1946).

To protect the corporation and thereby all the stockholders, the court is specifically charged with the task of deciding whether any extrinsic fraud or collusion existed. Thus, in *Winkelman v. General Motors Corporation*, 48 F. Supp. 490 (S. D. N. Y., 1942), it was stated at p. 493:

"The role of the Court on the compromise of a stockholder's derivative action is described by Mr. Justice Rosenman in *Neuberger, etc. v. Barrett et al.*, June 25, 1952. He wrote:

"The role of the court is to see that the compromise is fair and reasonable under the circumstances and that no collusion or fraud has been practiced in the consummation of the settlement. To do this the court must weigh the probabilities and possibilities of victory or defeat as indicated by the legal or factual situation presented. If such considerations lead to the conclusion that the settlement agreed upon by the plaintiffs in the suit is not unfair or unreasonable to the corporation (in which all the other stockholders have their interest), then the action of the plaintiffs in compromising the suit should be approved.' "

To the same effect, see:

Pergament v. Frazer, 93 F. Supp. 13 (E. D., Mich., 1950), aff'd. 203 F. 2d 315 (6th Cir., 1953), cert. den. 346 U. S. 832 (1953);

Pottish v. Divak, 71 F. Supp. 737 (S. D., N. Y., 1947).

Requiring notice to the stockholders and according them an opportunity to present objections or suggestions clearly

evidences that the court is actually deciding everybody's rights in the controversy, not just what the immediate parties envision or purport them to be. Thus, in *Cohen v. Young*, 127 F. 2d 721 (6th Cir., 1942), it was stated at p. 725 that:

"The rule [i.e., Rule 23(c)] provides for notice to stockholders not only in order that they may have the right to be heard but also in order that the court may have the benefit of that broader information which comes from receiving advice as to the views of all parties concerned and from considering evidence proffered by them upon the relevant points of the case. In other words, the rule was adopted to secure not routine approval of a consent decree, but in order to insure supervision of the court for the protection of the corporation and all the stockholders."

See, also, *Pottish v. Divak*, 71 F. Supp. 737 (S. D., N. Y., 1947).

Conclusive authority against a stockholder raising the issue of collusion collaterally lies in the fact that Rule 23(c) accords each stockholder the following rights: he may offer evidence in support of, or in opposition to, the proposed dismissal and, without formal intervention, may appeal directly from the trial court's eventual approval or non-approval. *Cohen v. Young*, 127 F. 2d 721 (6th Cir., 1942); *Masterson v. Pergament*, 203 F. 2d 315 (6th Cir., 1953).

This is fundamental to the successful—and meaningful—operation of Rule 23(c). It is the recognition of these rights which distinguishes class actions from more conventional lawsuits or situations in which claims are voluntarily dismissed or compromised without the scrutiny of the court and the benefit of its approval as required by Rule 23(c). Non-parties who are directly affected by the result in such conventional litigation may, of course, collaterally attack the judgment.

By the same reasoning, when a class action arises in a jurisdiction which permits dismissal or compromise without

court approval after notice to all class members, those members of the class who are not before the court have no opportunity to participate in the proceedings or to appeal and their rights can be protected *only* by a collateral attack. These are the situations which Reich cites to this Court.

Rule 23(c), however, provides a practical means for direct participation by all class members and a right of appeal to any who may feel aggrieved. This accords full protection to all, obviates any need for the cumbersome weapon of collateral attack, and hence proscribes such an attack.

Here the Nevada Court, in considering the evidence and in finding that the action and proceedings before it were adversary and non-collusive, conscientiously fulfilled the duty imposed upon it by Rule 23(c). Reich, on the other hand, after defaulting in the presentation of his evidence, if any he had, in Nevada and failing to appeal from the Nevada judgment, can not raise the collusion issue collaterally.

The recent litigation in the Sixth and Second Circuits affecting the Kaiser-Frazer Corporation is completely dispositive of Reich's contention here.

See

Pergament v. Frazer, et al., 93 F. Supp. 13 (E. D., Mich., 1950), aff'd. 203 F. 2d 315 (6th Cir., 1953), cert. den. 346 U. S. 832 (1953); and
Stella v. Kaiser, et al., 218 F. 2d 64 (2nd Cir., 1954).

In the *Kaiser-Frazer* situation six stockholders' actions were pending in various courts in different states—three in Federal and three in State courts. Defendants chose to negotiate a settlement with the attorneys representing Pergament in the Eastern District of Michigan. Attorneys for the plaintiffs in the other actions did not participate in the talks. Eventually, and without consulting counsel for

the other plaintiffs, a settlement of the entire controversy was reached. The settlement was then placed before the Court for its approval.

All stockholder plaintiffs were duly notified of the motion for dismissal based upon the settlement and were invited to appear by their counsel before the Michigan Federal Court. Among the charges made was that Pergament and the defendants were in collusion. On this point the District Court ruled:

" . . . We saw no evidence of any such collusion. In all cases after attorneys have arrived at an agreement and it is desired to protect the several parties, it is usual for them to collaborate and make certain that nothing has been overlooked. Plaintiffs' attorneys said that they thought they had driven a good bargain, utilizing to the extreme the knowledge that defendants, particularly the Kaisers, wanted all these lawsuits out of the way before going on the guaranties of the hoped for loan from RFC. It is no great wonder, and we don't believe subject to the charge of collusion, that when the several attorneys had arrived at this point it was insisted by defendants that amendments be made to plaintiffs' bill of complaint to include the other actions. Defendants would have settled on no other basis. They wanted—and rightly so—to put an end to what they then termed, these bickerings, snippings, and nuisance lawsuits that were interfering with the progress and success of the Kaiser-Frazer Corporation. And why shouldn't they?" (93 F. Supp. at p. 20.)

After extended hearings and close analysis, the Court approved the settlement as proposed and dismissed the action with prejudice. In describing the effect of this judgment it stated, at p. 17:

"On or about September 21, or 25, 1949, Pergament and London, plaintiffs in this action, began conferences with defendants through their attorneys, having as their objective settlement of this and all derivative suits begun by stockholders. A settlement agreement was arrived at October 25, 1949.

"That proposed compromise is now before this court and if approved will serve to dismiss not only the Pergament-London action but will eliminate all other stockholders' derivative suits heretofore started."

On appeal the District Court's approval was affirmed by a divided court. *Masterson v. Pergament*, 203 F. 2d 315 (6th Cir., 1953). The Supreme Court declined review by certiorari. *Masterson v. Pergament*, 346 U. S. 832.

The matter, however, was not permitted to rest at that point. Another stockholder, Stella, sought to renew and press an action which he had instituted in the Southern District of New York (see 82 F. Supp. 301) *prior* to the institution of the Pergament action in Michigan. The precise parallel of this sequence to the much-labored fact that the Castleman-California action preceded the Castleman-Nevada action by eight days will be obvious to this Court. Stella was met with the claim that the Pergament settlement and judgment of dismissal were *res judicata* to which he replied, *inter alia*, that the Michigan judgment was so fatally tinged with fraud as to permit a collateral attack to be maintained in New York.

In reviewing the entry of summary judgment for the defendants, the Second Circuit ruled unanimously that the judgment was beyond attack on this ground. Chief Judge Clark's opinion in *Stella v. Kaiser*, 218 F. 2d 64 (handed down December 7, 1954), reads in part as follows:

" . . . Plaintiff was an active litigant in the proceedings . . . [in Michigan] and is bound under the principles of *res judicata* at least with respect to those defendants who were parties of record in Michigan. *Baldwin v. Iowa State Traveling Men's Ass'n*, 283 U. S. 522, 51 S. Ct. 517, 75 L. Ed. 1244. Even without his active participation Stella would have been bound by the Michigan court's action, since it was a conclusive adjudication of a 'true' class action, *Hansberry v. Lee*, 311 U. S. 32, 61 S. Ct. 115, 85 L. Ed. 22, 132 A. L. R. 741; 3 Moore's Federal Practice

23.11 (2d Ed. 1948); McLaughlin, Capacity of Plaintiff-Stockholder to Terminate a Stockholder's Suit, 46 Yale L. J. 421, 424, and since, moreover, there was adequacy of notice and representation as found by the Sixth Circuit, Masterson v. Pergament, *supra*, 6 Cir., 203 F. 2d 315, 330. See Dickinson v. Burnham, 2 Cir., 197 F. 2d 973, certiorari denied 344 U. S. 875,

"Plaintiff asserts, however, that the settlement itself was procured by fraud and that the Michigan decree is subject to attack for failure to decide this issue. But in this he is in error, for the fraud issue was in fact disposed of adversely to him by the Court of Appeals. Masterson v. Pergament, *supra*, 6 Cir., 203 F. 2d 315, 330-331. Since this issue was repeatedly raised, it cannot now be made the basis for collateral attack. De Bobula v. Goss, 90 U. S. App. D. C. 28, 193 F. 2d 35.

* * *

" . . . the only issue, as I see it, is whether a judicially effected compromise should have the same binding effect as a voluntary one would have. The writer of this opinion can see no reason why it should not. The judicial scrutiny contemplated by F. R. C. P. 23(c) gives to the parties a greater degree of protection than do many private settlements. The salutary effect of the rule would be seriously impaired if dissatisfied parties could revive compromised claims against parties whom the settlement expressly covered. The Third Circuit recently held that, even without judicial safeguards, a prior consent judgment may be successfully invoked by any defendants whose relationship to earlier defendants was 'close enough.' Lawlor v. National Screen Service Corp., 3 Cir., 211 F. 2d 934, certiorari granted 75 S. Ct. 42. Here we need not go so far, but may hold simply that a member of the class of stockholders in a derivative action is bound by and must accept a judicially approved compromise in his behalf. This is the traditional class suit or representative situation, see Advisory Committee's Note to F. R. C. P. 23(a) (1); 3 Moore's Federal Practice 3436, 3437, 3459, 3460 (2d Ed. 1948). Since Stella would thus be bound even by a totally adverse

judgment, there seems no reason why he—so represented—should not be bound by the release and satisfaction ordered by the court.” (pp. 65-67)

The case is precisely analogous. Reich has no standing to assert—on behalf of any RKO stockholder, whether actually present before Judge McNamee on March 22, 1954 or not—that a collateral attack can be levied in the California courts now against the Nevada Court’s judgment of dismissal with prejudice entered after notice to all RKO stockholders.

B. The Notice to RKO Stockholders of the Motion to Dismiss Was Adequate

No doubt because of an appreciation of the inherent difficulty of his position, Reich also challenges the adequacy of the notice concededly given all RKO stockholders of Hughes’ motion to dismiss.

The formal notice was, however, the product of an intermediate order of the Nevada Court which approved both its form and its method of transmittal (R. 188-9). This notice (printed in full at R. 202-3), together with a copy of the Motion to Dismiss as filed on February 11, 1954 (printed in full at R. 200-1), was mailed on or about March 1, 1954 to each record stockholder with the proxy statement for the special meeting of stockholders called for March 18, 1954 to consider Hughes’ offer (R. 189, 215). The offer to purchase all RKO assets “including any and all claims or causes of action of every kind or character against defendant which might be asserted against any person or persons, including me” (R. 195 *et seq.*) was, of course, also furnished all stockholders with the proxy statement which, in turn, set forth the nature and status of all pending suits.

Rule 23(c) imposes upon the court the duty of prescribing the form of the requisite notice to be given all

members of a class of the pendency of a "proposed dismissal or compromise." In this case, a proposed dismissal was in the offing if RKO's stockholders should approve a sale to Hughes of the corporation's assets, including any claims against him, with the consequent prospect that those claims would be extinguished in such a sale.

The Supreme Court has held in an analogous situation that, to afford the requisite due process, the notice given must be "reasonably calculated, under all the circumstances, to apprise interested parties of the pendency of the action and afford them an opportunity to present their objections . . . The notice must be of such nature as reasonably to convey the required information . . . and it must afford a reasonable time for those interested to make their appearance . . . But if with due regard for the practicalities and peculiarities of the case these conditions are reasonably met, the constitutional requirements are satisfied." See *Mullane v. Central Hanover Bank & Trust Co.*, 339 U. S. 306, 314-315 (1950), and cases therein cited.

It is submitted that both the form and method of giving notice to RKO's stockholders satisfy this test.

Reich's difficulty seems to lie in his apparent failure to accept the effect, in secondary class actions, of extinguishing all claims against Hughes. This effect is not defined or measured by factual evidence. It flows from the rule of law that extinguishing a claim results in compromising the claim. By accepting the offer of Hughes, the corporation assigned, among other property rights, any claims against him which it might have, including any asserted in the several stockholder actions. After this assignment, the plaintiffs in the Nevada suit, the Castlemans, and all others in their class—*i.e.*, all other stockholders—would have no further interest in any action against Hughes.

That an extinguishment of all of RKO's claims against Hughes (a prospect of which the stockholders were ex-

pressly advised) is a compromise, as a matter of law, is shown by an examination of the pertinent cases. See, e.g.,

Stella v. Kaiser, supra, 218 F. 2d 64 (2nd Cir., 1954);

May v. Midwest Refining Co., 121 F. 2d 431, 440 (1st Cir., 1941);

Piccard v. Sperry Corporation, 36 F. Supp. 1006, aff'd. 120 F. 2d 328 (2nd Cir., 1941);

Malcolm v. Cities Service Co., 2 F. R. D. 405 (D. Del., 1942).

By sale of the causes of action, "the case has in fact been compromised and is ripe for dismissal," bringing Rule 23(c) into play whether or not a formal motion to dismiss has been filed. Cf. *Webster Eisenlohr, Inc. v. Kalodner*, 145 F. 2d 316 (3rd Cir., 1944), dissent by Judge Biggs at p. 325.

Here, all RKO stockholders were on notice that they could "take any action with respect [to the proposed dismissal] before this court which may be proper" (R. 203). Reich therefore cannot seriously contend that the stockholders were without notice that they could introduce evidence bearing on the fairness of the purchase which resulted in the extinguishment of the claims and causes asserted in their derivative actions. The Nevada Court was required to pass upon the fairness of this purchase. Refusal to receive a stockholder's proffered evidence on the issue of fairness would have constituted reversible error.

The position of the Court under Rule 23(c) was stated in *Cohen v. Young, supra*, as follows:

" . . . Under the circumstances here presented, Rule 23(c) does not justify approval of a proposed compromise of a class action solely upon the recommendation of attorneys even though they represent all parties of record. The rule provides for notice to stockholders not only in order that they may have the right to be heard but also in order that the court

may have the benefit of that broader information which comes from receiving advice as to the views of all parties concerned and from considering evidence proffered by them upon the relevant points of the case. In other words, the rule was adopted to secure not routine approval of a consent decree, but in order to insure supervision of the court for the protection of the corporation and all the stockholders" (127 F. 2d at 725).

The above demonstrates fully the complete adequacy of the notice given RKO stockholders under direction of the Nevada Court. Compliance with Rule 23(c) having been fulfilled, due process was accorded all parties having an interest in the extinction of any claim against Hughes.

**C. In Any Event, Any Question of the Fairness of
the Compromise Effected by the Sale to
Hughes Is Now Foreclosed**

Ultimately Reich must answer the question as to what he proposes to litigate in the event of a reversal here. To date he has scrupulously avoided any charge that the challenge to the Hughes offer litigated in the Delaware Chancery Court is subject to a collateral attack in California. In that proceeding to enjoin the sale of RKO's assets to Hughes, the Chancellor, after careful review of the extensive evidence, ruled that the plaintiffs had failed to sustain their burden of showing fraud or bad faith and granted judgment on the merits in favor of the defendants. *Schiff v. RKO Pictures Corp.*, 104 A. 2d 267, 280 (1954).

Passing the point that it was also specifically charged in Delaware that fraud and bad faith were inherent in the plan to purchase the claims asserted in the pending stockholder suits with all other assets (see 104 A. 2d at p. 280), it remains that no appeal was taken in that action. Furthermore, Reich specifically concedes that "the Delaware action is *res judicata* on the issue as to whether the sale was fair and that the appellants here do not and cannot challenge that judgment" (Opening Brief, pp. 19-20).

Finally, it may be noted that the Motion to Dismiss the Nevada action, as supplied to all stockholders, clearly put everyone on notice that if Hughes' offer was accepted, the sale "will effectively extinguish all claims and causes of action against this defendant *and* will render this pending action moot as to this defendant" (R. 200-1). One ground of Judge Harrison's memorandum decision of August 5, 1954, granting the motion to dismiss below was that the effect of the sale of all RKO assets—including the cause of action then before him—was to render the action moot (R. 356).

Following the judgments in Delaware and in Nevada, all assets of RKO were transferred to Hughes, in exchange for \$23,489,478 in cash. For over thirteen months, at the date of this brief, Radio, the only corporation before this Court, has been wholly owned by Hughes. Does Reich propose a reversal so that he may prosecute on behalf of Radio a claim against its sole owner, who would be the sole beneficiary of any recovery (after deduction of fees for Reich)?

II.

No further counsel fees can be assessed against Radio.

It is this phase of the appeal which appears to explain most, if not all, the tumult. Reich has been relegated by the Court below to his employers, Kipnis and Mittelman, for any fee which can justly be regarded as due him. We leave it to the co-appellees to argue the merits of whether any fee is allowable against them in this action or should be determined in the action instituted by Reich in New York. We are concerned only with the claim for a second award of fees against Radio.

When Reich moved below for an award of counsel fees and costs against "defendants other than Bank" (R. 283 et seq.) it was then true, as it had been from the beginning,

that personal jurisdiction had been obtained in the action only over the present appellee Radio, a former subsidiary of RKO.

Under general equitable principles, of course, plaintiff's counsel fee in a derivative action is to be measured by—and charged to—the benefits flowing to the corporation on whose behalf the suit is undertaken. See 13 Fletcher, *Cyclopedia Corporations* (Rev. Ed.) § 6045 and cases therein cited.

Even if we assume that Reich's activity produced some benefit to RKO, the former parent, and reject the idea that his maneuvers amounted to no more than a plaguing and expensive nuisance to all concerned, plaintiffs and defendants alike, it is difficult to perceive the logic in (a) awarding anything but nominal fees for the prosecution of an action against Radio, a subsidiary of an interested but basically neutral party, in the absence of the alleged wrongdoer and (b) awarding anything at all against a party who in nowise could be benefited by the most generous recovery.

Be that as it may, Reich cannot be awarded any fees against "the RKO defendants" for the following reasons:

A. Reich, as self-styled counsel for the Castleman plaintiffs, is barred from any recovery of fees by reason of the fact that the Castlemans were reimbursed by the Nevada Court for all expenses for attorneys.

The plaintiffs below, the Castlemans, were awarded a judgment on April 5, 1954 for all expenses incurred by them to cover the fees of all counsel who had appeared for them in any of their actions, wherever pending (R. 233 *et seq.*). The award included \$125,000 for attorneys' fees, plus \$8,000 disbursements, plus \$27,000 for accountants' fees and disbursements (R. 238). The judgment has been paid.

The Nevada Court was fully advised with respect to the date of institution and the pendency of the California action covering the same causes of action pleaded in Nevada (R. 217-8).

Reich was duly notified that the Nevada Court would determine the amounts, if any, to be allowed to the Castlemans for their expenses for attorneys. He received this notice in two ways:

First, Reich received the formal notice of the motion by Radio and RKO in the Nevada action for a hearing to determine the allowance of costs, disbursements and attorneys' fees (R. 209-211), and the order of Court setting such a hearing for April 5, 1954 (R. 212-4). Receipt of this notice is conceded (R. 260).

Secondly, Reich also received a letter from Kipnis, dated March 8, 1954, advising that the Castlemans were moving for an award of counsel fees but would not include a claim for Reich. Kipnis suggested that if he believed that his "alleged services are compensable," he so assert before Judge McNamee (R. 260-2).

The claim, if any, of the Castlemans for reimbursements of their expense for attorneys representing them obviously could not be split by letters passing between their various present or past counsel. This was clearly recognized by the Nevada Court which, on the motion of Radio and RKO and the cross motion of the Castlemans, awarded a sum to the Castlemans "for all expenses for attorneys and accountants and other disbursements incident to the prosecution of this and all other actions in which Eli B. Castleman, et al., or any of them, are plaintiffs as stockholders of RKO Pictures Corp." (R. 241), and further ordered that RKO and Radio "be, and they hereby are, released and discharged from any and all claims by any plaintiff . . . (other than the plaintiffs herein . . .) . . . in any action purported to be brought on [their] behalf, wherever instituted or pending, for attorneys' fees . . ." (R. 241-2).

Since the Nevada Court granted counsel fees to the Castlemans after due notice to all concerned, that award is binding upon them in this Court as it is upon Reich to

the extent that he claims by or through them as their attorney. See Point I A and B, *supra*.

There was nothing novel in the Nevada Court's action. Given the requisite notice to all counsel of record in all pending suits, a single court may make—and often has made—a single award to cover all related actions.

See, e.g.,

Waterman Corp. v. Johnston, 122 N. Y. S. 2d 695 (Sup. Ct., N. Y., 1953), fees allowed in New York action covering services in actions in Delaware and Washington, D. C.;

Perrine v. Pennroad Corp., 51 A. 2d 327 (Chancery Del., 1947) aff'd 64 A. 2d 412 (Del., 1948), Delaware court approving settlement awarded fees also for services in action in Pennsylvania federal court;

Diamond v. Davis, 62 N. Y. S. 2d 175 (Sup. Ct., N. Y., 1945), award in New York state court for services in federal court action which had been stayed pending outcome of action; and

Winkleman v. General Motors, 48 F. Supp. 504 (S. D. N. Y., 1942), award to attorney whose other actions, one in different court, were stayed pending outcome of principal action.

B. Nor may Reich base any claims for fees upon his representation of the Novembers in their application to intervene below. The motion (R. 175-181) was dated March 5, 1954, almost one month after February 7, 1954, the date of the Hughes offer to purchase the assets of RKO.

It is manifest from these dates that the intervention motion could not have had any bearing on the Hughes offer.

At the hearing before Judge McNamee on March 22, 1954, the Novembers appeared by their Nevada counsel (R. 189). Even Reich concedes on hearsay that Tom Foley, the Novembers' Nevada counsel, "was present as an observer in the courtroom" and also that Foley "was in-

vited to cross-examine" (R. 258-9). Judge McNamee's Final Order of April 5, 1954 specifically finds:

"That on March 22, 1954, at the hearing on the Motion to Dismiss this action with prejudice, certain stockholders appeared in person or by counsel and participated, or were accorded full opportunity to participate, in this proceeding; that among such stockholders so appearing were . . . Julius November and Eleanor November, appearing by Foley & Foley, attorneys of Las Vegas, Nevada" (R. 236).

Reich was not openly active as counsel for the Novembers until March, 1954, long after the Hughes offer had been made as finally approved and accepted, and manifestly his activities in this capacity conferred no benefit on RKO, much less on Radio.

Counsel for a proposed intervenor is but a volunteer and has no right to fees from the corporate defendant.

Mann v. Superior Court of Los Angeles County,
53 Cal. App. 2d 272, 127 Pac. 2d 970, 975 (1942).

See, also:

Perrine v. Pennroad Corp., 51 A. 2d 327, 336 (Del., Chan. Ct., 1947), aff'd 64 A. 2d 412 (Del., 1948);

Ex parte Gray, 47 S. 286 (Ala., 1908);

Hornstein, *Counsel Fees in Stockholders' Derivative Actions*, 39 Col. L. R. 784, 803 (1939).

III.

No other acts or omissions of the Court below are presently reviewable.

In his Opening Brief, Reich labors a variety of intermediate and interlocutory dispositions of the many motions and applications made to Judge Harrison at various times. Under the salutary rule that such actions and omissions

of a lower court will not warrant a reversal in the absence of a clear showing of prejudice or an abuse of discretion, this Court should decline to entertain or review the matters embraced in Points IV, V, VI and VII of Appellants' Opening Brief.

CONCLUSION

For the foregoing reasons the final judgment of the District Court, entered on September 27, 1954, must be, in all respects, affirmed, with costs.

Respectfully submitted,

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IN THE
**United States Court of Appeals
For the Ninth Circuit**

ELI B. CASTLEMAN, MARION V. CASTLEMAN, LOUIS FEUERMAN, JULIUS NOVEMBER, ELEANOR NOVEMBER, and BERNARD REICH,

Appellants,

vs.

HOWARD R. HUGHES, RKO PICTURES CORPORATION, RKO RADIO PICTURES, INC., THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK, ELI B. CASTLEMAN, MARION V. CASTLEMAN and LOUIS FEUERMAN,

Appellees.

**BRIEF OF CASTLEMAN AND FEUERMAN DESIGNATED
HEREIN AS APPELLANTS AND AS APPELLEES**

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TABLE OF CONTENTS

	PAGE
Statement of the Pleadings and of Facts Relative to Jurisdiction of the District Court and of Facts Disclosing That This Court Has <i>No</i> Jurisdiction to Review the Judgment in Question	1
Statement of the Case	3
Preliminary Discussion with Respect to the Use of Words of Art in the Brief of the Castelmans and Feuerman	13
Stockholder Actions: Representative and Deriva- tive	14
Class Actions and Rule 23	15
Judicial Discretion	17
Intervention	18
Jurisdiction—Collusion: Forum—Venue	20
Moot Cases; Academic Questions	23
Statement of Issue Preliminary to Argument	25
Argument	26
I—Judge Harrison correctly dismissed the ac- tion with prejudice on the motion of RKO, supported by the “Relevant Documents From the Nevada and Delaware Courts”.	
Said documents, consisting in part, of un- reversed judgments of the courts of Nevada and Delaware compelled the granting of the motion to dismiss said action under the Full Faith and Credit Clause of the Constitution; by reason of <i>res judicata</i> , under the Nevada judgment, and, by reason of mootness, under the Delaware judgment.	
The Nevada and Delaware judgments may not be collaterally attacked in California ..	26

II—Judge Harrison did <i>not</i> abuse his discretion when he denied fees to Mr. Reich, by reason of the Nevada judgment, or otherwise, as a matter of discretion, and relegated him to a different arena (where he presently is)	34
III—No error was committed by Judge Harrison in any aspect of his supervision of the action	44
Conclusion	48

Table of Cases

Bachrach v. General Inv. Corp., 29 F. Supp. 966	19
Badger, In re, 9 F. 2d 560	41
Bernstein v. N. V. Nederlandsche-Amerikanische Stoomvaartmachappij, etc., 76 F. Supp. 335	19
P. Beiersdorf & Co. v. McGohey, 187 F. 2, 14	46
Bloom v. Irving Trust Co., 272 N. Y. Supp. 637	41
Brownlow v. Schwartz, 261 U. S. 216, 67 L. ed. 620	27
California v. San Pablo & Tr. Co., 149 U. S. 308, 37 L. ed. 747	27
Craftsman Finance & Mortgage Co. v. Brown, 64 F. Supp. 158	17
Crowley v. Wolf, 281 N. Y. 59	40
Delno v. Market St. Rway Co., 124 F. 2d 965	17
Diamond v. Davis, 62 N. Y. Supp. 2d 175	38
Doggett v. Deauville Corp., 148 F. 2d 881	42
Doremus v. Board of Education, 342 U. S. 429, 96 L. ed. 475	28
Finn v. Childs Co., 181 F. 2d 431	42
Ford Motor Co. v. National Labor Rel. Bd., 305 U. S. 364, 83 L. Ed. 221	23
Gillis v. Keystone Mutual Casualty Co., 172 F. 2 826	48

Grant v. Greene Consol. Copper Co., 154 N. Y. Supp.	
596	29, 32
Hawes v. Oakland, 104 U. S. 450, 26 L. ed. 827	15
Holthusen v. Edward G. Budd Mfg. Co., 55 F. Supp.	
945	43
Kentucky Natural Gas Corp. v. Duggins, 165 F. 2d	
1011	21
Koster v. Lumberman's Mutual Casualty Co., 330	
U. S. 518, 91 L. ed. 1067	14, 28
Landis v. North American Company, 299 U. S. 248,	
81 L. ed. 153	45, 47
E. B. Latham & Co. v. Mayflower Industries, Inc.,	
278 App. Div. 90, 103 N. Y. Supp. 2, 279	21
Little v. Bowers, 134 U. S. 547, 33 L. ed. 1016	27
Malcolm v. Cities Service Co., 2 F. R. D. 405	17
Mann v. Superior Court of L. A. County, 127 Pac.	
2d 970	44
Margarettten v. Horowitz, 112 N. Y. Supp. 2d 24	43
Metropolitan Street Railway Receivership, 208 U. S.	
90	22
Mottolese v. Kaufman, 176 F. 2, 301	46
Mueseler's Estate, 220 Pac. 2d 18	40
Mullins v. DeSoto Securities Co., 2 F. R. D. 502	19
Mullane v. Central Hanover B & T Co., 339 U. S. 306	
.....	38
Nierbo v. Bethlehem Shipbuilding Corp., 308 U. S.	
165, 84 L. ed. 167	20
Paramount Pictures v. Blumenthal, 256 App. Div.	
756, 11 N. Y. Supp. 2d 768	22
Pelelas v. Caterpillar Tractor Co., 113 F. 2d 629, cert.	
den. 311 U. S. 700	17
Puget Sound Power & Light Co. v. City of Seattle,	
271 Fed. 958	24

Rippberger v. A. C. Allyn, 113 F. 2d 332	29, 32
Roth v. Reich, 164 F. 2d 332	29, 32
Roth v. Reich, 164 F. 2d 305	42
San Mateo County v. Southern Pac. R. R., 116 U. S. 138, 29 L. ed. 589	27
St. Pierre v. United States, 319 U. S. 41	24
Schiff v. RKO Pictures Corp., 104 A. 2d 267	13, 26
Schreiber v. Butte Copper & Zinc Co., 98 F. S. 106 ..	14, 15
Stella et al. v. Kaiser et al., 218 F. 2d 64	32, 33
Tachna v. Insuranshares Corp. of Delaware, 25 F. Supp. 541	18
Turner v. Alton Banking & Trust Co., 181 F. 2d 899	31, 32
Thomas v. Peyser, 118 F. 2d 369	36
Thomas v. Thomas, 34 N. Y. Supp. 2d 320	39
United States v. Alaska S. S. Co., 253 U. S. 113, 64 L. ed. 808	24
U. S. v. Appalachian Elec. Power Co., 311 U. S. 377, 85 L. ed. 243	27
Wagner v. Boggess Coal & Supply Co., 94 N. E. 2d 64	28
Waterman Corp. v. Johnston, 122 N. Y. Supp. 2d 695	37
Webster Eisenlohr Inc. v. Kalodner, 145 F. 2d 316; cert. den. 325 U. S. 867	17
Western Pacific R. Corp. et al. v. Western Pacific R. Co., 206 F. 2d 495	35
Winkelmann v. General Motors Corporation, 48 F. Supp. 490	17, 38

Federal Rules of Civil Procedure

PAGE

Rule 23	15
Rule 23(a)	28
Rule 23(b)	28
Rule 23(c)	15, 16, 17
Rule 24	18
Rule 41(a)	15
Rule 53(b)	45
Rule 61	47

Articles

Capacity of Plaintiff Stockholder to Terminate Stockholders' Suit, 46 Yale Law Journal 421(1936)	16
Law and the Modern Mind, Jerome Frank	34

Textbooks

American Jurisprudence	43
Fletcher, Corporations	43

IN THE

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For the Ninth Circuit**

No. 14573

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Appellants,

vs.

HOWARD R. HUGHES, RKO PICTURES CORPORATION, RKO RADIO PICTURES, INC., THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK, ELI B. CASTLEMAN, MARION V. CASTLEMAN and LOUIS FEUERMAN,

Appellees.

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**BRIEF OF CASTLEMAN AND FEUERMAN DESIGNATED
HEREIN AS APPELLANTS AND AS APPELLEES**

**Statement of the Pleadings and of Facts Relative
to Jurisdiction of the District Court and of Facts
Disclosing That This Court Has No Jurisdiction
to Review the Judgment in Question**

On December 15, 1952 (R. 320) Eli B. Castleman, Marion V. Castleman (hereinafter sometimes, the Castlemans) and Louis Feuerman commenced an action in the Court below.

On August 5, 1954 Hon. Ben Harrison, District Judge, granted the motion of RKO Radio Pictures, Inc. to dismiss said action, with prejudice, in accordance with his "Memorandum" filed (said) day (R. 355, 356), and concurrently denied two fee applications by Mr. Reich.

After providing for a hearing on the proposed Final Judgment (R. 357) it was docketed on September 27, 1954 (R. 360-362).

Mr. Reich prepared, signed and served a Notice of Appeal dated October 1, 1954 which was filed October 4, 1954 (R. 362).

Mr. Reich at the same time, unilaterally and extra-judicially has grafted on to the title of the action below the names of three persons as *parties "Appellants"* in addition to the names of the three existing plaintiffs. These three new "parties" are Julius and Eleanor November and *Mr. Reich himself*. In the body of the Notice of Appeal, Mr. Reich states over his own signature (R. 362) that said three original (and sole *party-*) plaintiffs " * * * hereby appeal * * * from the * * * Final Judgment entered in this action on September 27, 1954," as do the Novembers and he, himself.

As to the Castlemans and Feuerman, said Notice of Appeal at the time of its making, serving and filing (and now) did not reflect the truth. The Castlemans and Feuerman are *not* appealing from the Final Judgment below.

In his Opening Brief, Mr. Reich has now " * * * admitted that the appeal herein was taken without the consent of the appellants Castleman and Feuerman, * * *". He, therefore, no doubt, feels called upon to offer "some explanation of why counsel has designated himself as the attorney for the appellants, including *three who have not authorized him to take the appeal*" (Reich brief, p. 3) (italics supplied).

With the Castlemans and Feuerman out of the appeal on "admitted" facts; with no true "party" to the record properly before this Court as an aggrieved appellant, it is respectfully submitted that this Court has no jurisdiction to review the judgment in question.

Statement of the Case

Mr. Reich's "Concise Statement of the Case" as well as his "Detailed Statement of the Case" are controverted; hence this separate "Statement".

"This case is one of several shareholders' derivative actions filed in both state and federal courts throughout the United States involving alleged injury to the same corporation at the hands of the same corporate officers". Thus wrote Judge Ben Harrison in opening his "Memorandum Granting Motion to Dismiss" (R. 356).

On a chronological basis there can be no possible contradiction of the fact that of their four (4) several actions the Castlemans and Feuerman had commenced their actions *first in New York* (R. 97, 100, 154). (Moreover, the interest of Messrs. Kipnis and Mittelman " * * * in the RKO situation goes back to a period late in 1949 when (they) were first consulted by a client who was dissatisfied at the way in which Hughes was acting relative to RKO".) In any event, they started suit in New York on the day after the sale of the Hughes control-stock in September, 1952 (R. 153). *The New York action preceded the California action by three months.*

A second New York action, which *also preceded the California action*, by more than a month, was commenced with a concurrent application for the appointment of a receiver of RKO's New York assets (R. 153).

Widespread publicity attended the receivership application (R. 153) at the time of its making and for some time thereafter. Nevertheless, no other actions by other RKO shareholders were commenced anywhere before April 20th (R. 218) in California.

While the receivership application was pending, Mr. Kipnis was "looking for an RKO savior" (R. 155). He

wrote to the three persons he thought might be able to save the Company; Charles Allen (a Wall Street investment banker), Louis B. Mayer and Floyd Odlum. Mr. Allen sent back word that he would "not touch RKO with a ten-foot pole"; Mr. Mayer did not even respond, but Mr. Odlum, whose Atlas Corp. was the largest RKO shareholder, offered "to listen" (R. 154).

All of this took place *before* Mr. Reich was asked to act as local counsel for a "stand-by" action (R. 154) in California.

At Mr. Odlum's invitation, Mr. Kipnis met with Mr. Slack (Mr. Hughes' lawyer) at Indio, California (R. 155, 320). At that time it was still not possible to obtain personal jurisdiction over Mr. Hughes in New York (R. 319).

Mr. Slack at that meeting had stated that plaintiffs were free to sue in any State, including California, but added that Mr. Hughes would contest jurisdiction if any such action were prosecuted elsewhere than Nevada (R. 321), Mr. Hughes' intended and then actual residence (R. 155). There, he would appear (R. 155, 321) if sued. No other agreement of any kind or nature was made (R. 156).

An examination into the facts by Mr. Kipnis after the Indio meeting disclosed the following facts and advantageous factors in favor of Nevada as the forum for the derivative action (R. 321) :

1. It had adopted the Federal Rules of Civil Procedure with its wide examination provisions;
2. Jurisdiction over the person of Hughes, the principal, financially responsible defendant, when obtained, would be irrevocable;
3. There was no "security-for-costs" bond requirement (*contra* in New York and in California);
4. The calendar docket was reasonably current;

5. Avoidance of dilatory contests as to residence, service, venue, as envisaged in California, was certain (R. 293).

But first and foremost there was established to Mr. Kipnis' satisfaction the fact of Mr. Hughes' actuality of residence in Nevada (R. 321).

The Nevada action was thereupon commenced (R. 322) on December 23, 1952 (R. 184).

It received widespread publicity (R. 322) and aroused the ire of Mr. Reich (R. 322), "who, apparently, saw vanishing from his grasp that which he had planned to take for himself, to wit, control of this action under the belief that this case would necessarily be tried in this Court, in consequence of which he would expect more than 10%" (R. 322).

Upon being advised of the commencement of the Nevada action, Mr. Reich first attempted to persuade New York counsel that their judgment was bad. He importuned them to make use of allegedly important factual information which he alone allegedly possessed. *He pleaded to be named as co-counsel in Nevada.* He intimated that the Nevada action could be misconstrued. He foretold that charges of fraud and collusion would be made (R. 322) but not by whom they were to be made.

In the meantime, with jurisdiction over Hughes and the other defendants irrevocably established in Nevada, the Castlemans proceeded diligently to prosecute said action (R. 225, 323) there.

On the other side of the Nevada boundary line, however, Mr. Reich plotted his subversion of the Nevada litigation. Preliminarily, he *** insisted upon attempting to establish that Hughes was a resident of California rather than Nevada for no other reason than that it would possibly

establish control of the case in his hands with possible financial benefits to himself" (R. 322). *Mr. Reich made a first attempt to serve Mr. Hughes in the California action three months after the commencement of the Nevada action and its diligent prosecution* (R. 46, 138).

Without any notice, authority or warning and *before* any defendant in the California action had taken any procedural step, Mr. Reich served notice to take the deposition of Mr. Hughes at a time and place *in conflict* with a prior notice for such examination served out of the Nevada action (R. 139, 143; Stipulation, R. 37). This unauthorized and disruptive overt act, among others, by Mr. Reich, led ultimately to his discharge on May 7, 1953 as local counsel for the Castlemans (R. 322-323, 327).

Whereas the discharge of Mr. Reich (R. 157) was immediately effective as a matter of law, his substitution unfortunately, could not be immediately or simultaneously implemented and because of this lack, Mr. Reich sought to justify the vast volume of post-discharge collateral activity (R. 277), with the Castlemans as captive-plaintiffs, by his own, self-serving interpretation of the local Court Rules. Among his post-discharge activities were motions for a special master (R. 91); for setting aside order quashing service on Hughes and dismissing action (R. 134); to permit intervention (R. 175) and to set aside notice to take depositions of newspaper reporters.

Negotiations to substitute Mr. Reich out of the case were initiated (R. 52) following his suggestion therefor (R. 141). On April 16, forms of stipulation signed by all parties concerned (except Mr. Reich) were dispatched to him for execution (R. 161). They were never signed by Mr. Reich.

Mr. Reich was constantly shifting his ground regarding the nature of his status in the case by reason of his refusal

to sign the stipulation (already signed by all the other necessary parties). For example:

"The fact is that I am still attorney of record and have not been effectively discharged" (R. 277);

"I consider myself wrongfully discharged and entitled to insist on a fixed fee" (R. 166);

"True you attempt to fire me" (R. 163);

"* * * In the first place they had already discharged me * * *" (R. 277);

"* * * after my so-called discharge" (R. 277);

"With respect to the issue of my wrongful discharge" (R. 270);

"Since by wrongfully discharging me" (R. 280).

(Later it was necessary to move to enjoin Mr. Reich from acting and representing himself as alleged counsel for the Castlemans (R. 74, 75) but since the motion was not acted upon, Mr. Reich continued, without any authority, to describe himself as "attorney for plaintiffs".)

Because two motions were then pending and stipulations adjourning them were required to be signed, Mr. Reich, though *functus officio* (R. 120), was requested by New York counsel (R. 165) if he were not yet "*formally substituted*" to sign them; on the other hand, if the substitution were then effective, then new counsel was to sign (R. 166). Said new counsel was the late Henry Herzbrun (now succeeded by Messrs. Silver and DeGroot, his office associates (R. 323).

In addition to adjourning the proposed deposition of Mr. Hughes and adjourning RKO's motion for security for costs, said stipulation of May 22, 1953 (R. 38) provided in part, that:

"* * * prosecution of this action shall be stayed until ten (10) days after the motion for security for expenses has been disposed of and that the time of RKO Radio Pictures, Inc. to answer or move with respect to the complaint herein be and the same is hereby extended until ten (10) days after such motion has been disposed of."

Every single bit of work done by Mr. Reich after May 7, 1953, when he was fired for cause (R. 327), described in his two fee applications, was self-generated, voluntary work (R. 335, 339, 378). Moreover, it was not only contrary to the wishes and without the approval of the plaintiffs (R. 327) but also in direct contravention of the stipulation of May 22, 1953 (R. 37-38).

These post-discharge activities by Mr. Reich, moreover, interfered with the effective and sustained prosecution of Mr. Hughes in the Nevada court first by compelling Messrs. Kipnis and Mittelman to dispel, with detailed documentation, the aura of suspicion cast over the case by Mr. Reich and by diverting their efforts with side issues calculated to bring newspaper publicity to Mr. Reich (Reich motions, *passim*, R. 330).

In still another way the activities of Mr. Reich served also to delay the Nevada case in that the publicity which Mr. Reich sought and obtained for his post-discharge activities stimulated a transcontinental competitive action in New York out of which the delay originated (R. 187, 224). Despite the handicaps interposed by Mr. Reich, Messrs. Kipnis and Mittelman were able nevertheless to bring the Neveda case to the point of imminence of trial with a record of pre-trial discovery, inspection and examination of a most intensive and extensive nature (R. 224).

On the eve of trial and without any notice or knowledge by anyone of Mr. Hughes' intention, he made an offer " * * *

to purchase from RKO Pictures Corporation all of its assets as of the date of transfer to me, including any and all claims or causes of action of every kind or character against or which might be asserted against, any person or persons, including me" (R. 195, 324).

Certain conditions were attached to the offer (R. 188, 196).

On February 11, 1954, Mr. Hughes moved in the Nevada action " * * * to dismiss with prejudice the action against all defendants * * *" (R. 188, 200). On the same day, the Nevada Court fixed March 22, 1954 as the date for hearing said motion and directed RKO to give notice thereof to each of its stockholders by mailing a copy thereof to each such stockholder with a proxy statement (required by the U. S. Securities and Exchange Commission) relating to the Special Meeting of stockholders scheduled for March 18th for the purpose of acting upon Mr. Hughes' aforesaid offer (R. 189, 202), which RKO did.

(But on February 16, 1954 other alleged shareholders of RKO Pictures Corp. sued in the Chancery Court of Delaware for an injunction against proceeding with the sale of its assets to Mr. Hughes because the offer was "grossly inadequate" (R. 193). A trial was had resulting in a judgment on the merits in favor of RKO and certified copies of the relevant documents were submitted to the Court below (R. 194).)

The point had been raised in Delaware that Mr. Hughes' purchase of RKO's assets encompassed the so-called "waste" actions. The Chancellor took cognizance thereof but disposed of it thus:

" * * * Conceding that Hughes, by his offer, will bypass the impending derivative waste actions against him, that consequence does not condemn the transaction. It is not uncommon for corporate execu-

tives to attempt to clean the litigation slate in one fell swoop in order to be done with it." *Schiff v. RKO Pictures Corporation*, 104 A. 2d 267, at 281 (1954).

On the return day of the motion in Nevada to dismiss said action with prejudice, the parties plaintiff and defendant and counsel for Julius and Eleanor November and others not identified (R. 189) appeared and participated at the hearing.

The Castleman plaintiffs had, in the meantime, cross-moved for an order assessing upon RKO Pictures Corporation and RKO Radio Pictures, Inc. their reasonable expenses (including attorneys' fees and accountant's fees), incurred in the prosecution of the claims and causes of action encompassed among the assets contemplated to be sold by said corporations to Mr. Hughes, as a condition to the approval, by the Nevada Court, under Rule 23 (c) of Mr. Hughes' motion to dismiss the action with prejudice (R. 190, 213).

Before considering the cross-motion of the Castlemans, however, the Nevada Court adjourned the same and required of RKO (R. 213) that notice be given to *all* plaintiffs in *all* representative and derivative actions, *wherever pending*, purporting to be brought on behalf of RKO or its stockholders, by notice to *all* counsel who have appeared for any such stockholders, directing such plaintiffs to show before the Nevada Court on April 5, 1954, any claims they may have for reimbursement of expenses, if any, including attorneys' fees, if any, incident to any such action (R. 194).

Mr. Reich had previously communicated with the Nevada Court (R. 99) having sent to it copies of affidavits and other documents calling for an investigation of "the circumstances surrounding the submission by the parties to the jurisdiction of your Court" (R. 104). Other communica-

tions by Mr. Reich to the Nevada Court raised other points which were critical of the parties (R. 108, 113) and the action.

When, on March 30, 1954 (R. 214) Hon. Frank McNamee, Nevada District Judge, made his Findings of Fact and Conclusions of Law, he adverted to those very matters. In Paragraph 38 (R. 223) the Court recorded that the charges of "collusion", lack of "truly adversary" proceedings and "inadequate" representation "have been specifically denied by everyone whose activities have been impugned thereby" and that he had reviewed the material at hand. Paragraph 39 (R. 225) found as a fact and concluded as a matter of law "*that this (Nevada) Court's jurisdiction is not a product of collusion of any type; that Howard R. Hughes resides and is domiciled in Nevada; that this action is, and has been conducted as a truly adversary proceeding; that plaintiffs have prosecuted this action diligently; that the stockholders of RKO have been fully and adequately represented by plaintiffs; and that the judgment dismissing this action with prejudice is binding upon all other stockholders of RKO*" (R. 225). (Emphasis supplied.)

Thereupon, the Nevada Court, on April 1, 1954, entered its Final Judgment dismissing the Castleman-Nevada action with prejudice (R. 193).

Jurisdiction was reserved for the purpose of determining and allocating all fees and costs (R. 193). Notice, as directed to be given by the Nevada Court to *all* plaintiffs, by notice to *all* counsel who had appeared for any such stockholders was so given by RKO. The "notice" to all counsel included Mr. Reich and, in addition, Mr. Kipnis gave Mr. Reich separate individual notice (R. 325).

On April 5, 1954, a Final Order allocating fees was made. Paragraph 10 thereof (R. 239) recites that:

"* * * there has been no showing by any stockholder (*other than plaintiff's herein*) or any attorneys (*other*

than attorneys for plaintiffs herein) that any such stockholder or attorney has conferred any benefit on RKO Pictures Corporation or RKO Radio Pictures, Inc., or contributed in any degree to any such benefit, by reason of the various stockholders' derivative and representative actions elsewhere instituted; * * * and there has been no showing that any stockholder, attorney or other person is entitled to recover any amount from the sum now within the jurisdiction of this Court." (emphasis supplied.)

There is no question at all that in sufficient time before April 5, 1954 Mr. Reich did in fact receive (R. 260) not only the Court notice as to the fee hearings, from RKO but also the specific notice from Mr. Kipnis (R. 325). To use his words (R. 259) "The fact is that I received a notice of motion inviting me to come to Las Vegas and make application for fees." He refused to be "lured" (R. 251) into Las Vegas on the issue of counsel fees.

Following the entry of Final Judgment in the Castleman-Nevada action, defendant RKO Radio Pictures, Inc. moved to dismiss the California action, with prejudice (R. 184). Said motion was supported by an affidavit from Mr. Roy W. McDonald (R. 186). The thrust of the motion and supporting affidavit was that: "5. The final order of dismissal with prejudice duly entered by the Nevada Court on April 1, 1954, bars any further prosecution of this action" (R. 185).

In addition to Mr. McDonald's affidavit the Court below also had before it certified copies of the proceedings in the Nevada and Delaware actions (R. 185, 194).

Said motion to dismiss the California action with prejudice came on to be heard on July 12, 1954, at which time Mr. Reich opposed the same, presented other motions for consideration plus two motions for fees for himself (R. 351-352).

On August 5, 1954, Hon. Ben Harrison filed his "Memorandum Granting Motion to Dismiss" (R. 356-357) which incorporated a denial of Mr. Reich's two fee applications, and on September 27th made and entered a final judgment (R. 360-361).

On October 4, 1954, Mr. Reich filed the notice of appeal (R. 362) herein.

Preliminary Discussion with Respect to the Use of Words of Art in the Brief of the Castlemans and Feuerman

In his Opening Brief Mr. Reich has employed words of art, having fixed meanings, but he has used them without that degree of precision which would permit the use of the same words of art by the Castlemans and Feuerman without the preliminary clarification which follows.

It is with all due deference to this Honorable Court that its time is presumed upon to discuss legal expressions but unless it is done the risk is run of not communicating to this Court the *ideas* which only *words* can convey.

For example, Mr. Reich has referred to "class actions" without differentiating them in accordance with the distinctions contained in Rule 23 of the Federal Rules of Civil Procedure; he has interchangeably employed the descriptive words "representative" and "derivative" insofar as actions by security holders are concerned; he has failed to distinguish between "direct" and "indirect" attacks on judgments; between intervention as a matter of right and as a matter of discretion; he has failed to distinguish between "corporate rights" and "individual rights" in the relation between a stockholder and his corporation, and, he has not indicated a recognition of the areas of judicial discretion without which only a mechanistic approach to the judicial process would be available.

nor has he made clear his use of the word "jurisdiction", "collusion" and "defense". In order to keep this brief within reasonable limits, there shall be submitted one citation, whenever possible, for each term used by the Castlemans and Feuerman in order to indicate to this Court the sense in which it is being used herein.

Stockholder Actions: Representative and Derivative.

In *Koster v. Lumberman's Mutual Casualty Co.*, 330 U. S. 518, 91 L. ed. 1067 (1947), these actions have been described as:

"* * * an invention of equity to supply the want of an adequate remedy at law to redress breaches of fiduciary duty by corporate managers. Usually the wrongdoing officers also possess the control which enables them to suppress any effort by the corporate entity to remedy such wrongs. Equity therefore traditionally entertains the *derivative or secondary* action by which a single stockholder may sue in the corporation's right when he shows that the corporation on proper demand has refused to pursue a remedy, or shows facts that demonstrate the futility of such a request * * *

"*The cause of action* which such a plaintiff brings before the court is not his own but the corporation's. *It is the real party in interest* and he is allowed to act in protection of its interest somewhat as a 'next friend' might do for an individual, because it is disabled from protecting itself." (emphasis supplied.)

And in *Schreiber v. Butte Cooper & Zinc Co.*, 98 F. Supp. 106 (1951), the distinction was pointed up and further refined. At page 113 Judge Weinfeld wrote:

"An action may be said to be *representative* when it is based upon a *primary or personal right* belong-

ing to the plaintiff-stockholder and those of his class. It is derivative when the action is based upon a primary right of the corporation but which is asserted on its behalf by the stockholder because of the corporation's failure, deliberate or otherwise, to act upon the primary right. 'The cause of action which such a plaintiff brings before the court is not his own but the corporations. It is the real party in interest * * *. Thus, we must determine whether the right of action exists in the plaintiff—as a primary right—or whether it is derived from the corporation or secondarily because of its failure to act. * * * '(emphasis supplied.)

Class Actions and Rule 23.

Judge Weinfeld's exegesis in *Schreiber, supra*, is a clear recognition of the various types of class actions referred to in Rule 23. The Rule speaks of "the character of the right sought to be enforced". The disjunctive "or" is referred to in subdivision (a)(1) thus:

"joint, or common, or secondary in the sense that the owner of a primary right refuses to enforce that right * * *,"

Since we are concerned here with a stockholder's action the "secondary" type of action above-referred to is material. Which in turn calls into play subdivision (b) relating to "Secondary Actions by Shareholders". Historically this is Equity Rule 27 with modifications and is expressive of the holding in *Hawes v. Oakland*, 104 U. S. 450 (1882), and former Equity Rule 94.

Subdivision (c) of Rule 23 deals with "Dismissal or Compromise".

Rule 23 (c) is expressly stated to be an exception to Federal Rule 41 (a), which provides for voluntary dis-

missal of suits simply by the filing of a stipulation of dismissal and without requiring an order of court. A plaintiff in a stockholder's suit, however, while he has the right to institute the action and control over its prosecution, being a class action, he cannot prejudice the rights of the class which he assumes to represent by filing a stipulation to dismiss.

The notes of the United States Supreme Court's Advisory Committee on Rules for Civil Procedure make express reference to McLaughlin, "Capacity of Plaintiff-Stockholder to Terminate a Stockholder's Suit," 46 Yale Law Journal 421 (1936). This article, oft-quoted and frequently used as authority, explains the reasons for restricting the suing stockholder's right to "terminate" a derivative action.

Professor McLaughlin states (*id.*, p. 426):

"Generally speaking a stockholder-plaintiff can prejudice the cause of action in two ways: one by discontinuing the suit, and second by compromising the suit and obtaining the entry of a consent judgment. The discontinuance may result in the surrender of an advantage already gained in the litigation, or even if ostensibly effected without prejudice may subject the cause of action to the statute of limitations. Compromising a suit and entering a consent judgment, in the absence of a showing of fraud or collusion, destroys a right of action."

This direct reference by the Committee points inescapably to the conclusion that Rule 23 (c) uses the words "dismissed or compromised" solely in the sense of *terminating* the action. Since the rule peremptorily requires court approval before such an action can be dismissed, its purpose is completely served by the control of the Court over the attempt unilaterally to dismiss.

A number of cases have been decided by the Federal Courts in which it is recognized that the purpose and intent of Rule 23 (c) is to prevent a *termination* of a class action which would affect the interests of other members of the class without the safeguards of judicial examination and approval.

In *Winkelman v. General Motors Corporation* (D. C., S. D. N. Y. 1942), 48 F. Supp. 490, 493, the Court said:

"In other words, the rule was adopted to secure not routine approval of a consent decree, but in order to insure supervision of the court for the protection of the corporation and all the stockholders. Cf. *McLaughlin*, op. cit. supra."

To the same effect, see also:

Malcolm v. Cities Service Co. (D. C. Del.), 2 F. R. D. 405, 407;

Craftsman Finance & Mortgage Co. v. Brown (D. C., S. D. N. Y. 1945), 64 F. Supp. 168, 177;

Webster Eisenlohr, Inc. v. Kalodner, 145 F. 2d 316 (C. C. A. 3 1944), cert. den. 325 U. S. 867;

Pelelas v. Caterpillar Tractor Co., 113 F. 2d 629 (C. C. A. 7 1940), cert. den. 311 U. S. 700.

In the exercise of its power to enter an order dismissing an action with prejudice upon a speaking motion, the Court, to effectuate the purpose of the rule, will scrutinize it with great care. In this task the Court will apply, of course, appropriate principles of substantive law.

Judicial Discretion.

In the Ninth Circuit there is available a relatively short and clear exposition of what is meant by (judicial) discretion. In *Delno v. Market, St. Rway Co.*, 124 F. 2d 965 (1942), the Court defined the term, at page 967, thus:

"In a second sense, and the one most commonly meant in the use of the word in the law, 'discretion' is defined as: 'The power exercised by courts to determine questions to which no strict rule of law is applicable but which, from their nature, and the circumstances of the case, are controlled by the personal judgment of the Court'. 1 Bouv. Law Dict., Rawles' Third Revision p. 884. Judicial action—discretionary in that sense—is said to be final and cannot be set aside on appeal except when there is an abuse of discretion. A common example is a court's ruling on the extent of cross-examination. Alford v. United States, 282 U. S. 687, 694, 51 S. Ct. 218, 75 L. ed. 624. *Discretion* in this sense, is abused when the judicial action is arbitrary, fanciful or unreasonable, which is another way of saying that discretion is abused only where no reasonable man would take the view adopted by the trial court. If reasonable men could differ as to the propriety of the action taken by the trial court, then it cannot be said that the trial court abused its discretion." (emphasis supplied.)

Intervention.

Rule 24 R. F. C. P. is not a self-executing rule. Whether intervention is sought as a matter of right (subdiv. a) or by permission (subdiv. b) a specific procedure is provided for by said Rule (subdiv. c). A motion is necessary; grounds therefor shall be stated; a pleading shall accompany the motion.

While there is some inter-circuit conflict on appealability from intervention orders there is none on the proposed intervenor's requirement to comply with Rule 24 prior to favorable judicial action thereon. *Tachna v. Insur-anshares Corp. of Delaware*, 25 F. Supp. 541, at 542, held "there is here no absolute right of intervention."

In one of the series of *Mullins* cases the matter of intervention was discussed broadly in *Mullins v. DeSoto Securities Co.*, 2 F. R. D. 502, where at page 508 the Court wrote:

“Frankly, in the exercise of our delegated discretion, even if there were grounds for an intervention of right, we do not believe the motion to intervene is ‘upon timely application’. ‘Courts are unanimous in requiring prompt action on the part of an intervenor who seeks to assert rights in a suit to which he is not a party.’ United States v. Columbia Gas & Electric Corporation, D. C., 27 F. Supp. 116, 119. ‘The rule is silent as to what constitutes timely application and the question must therefore be answered in each case by the exercise of sound discretion by a trial court.’ Simms v. Andrews, 10 Cir., 118 F. 2d 803, 806. See, also, Tachna v. Insuranshares Corporation of Delaware, D. C., 25 F. Supp. 541; White v. Hanson, 10 Cir., 126 F. 2d 559; American Brake Shoe & Foundry Co. v. Interborough R. T. Co., 2 Cir., 112 F. 2d 559.

“We cannot grant the intervention of right, and it is denied.”

In *Bernstein v. N. V. Nederlandsche-Amerikanische Stoomvaartmatchappij, etc.*, 76 F. Supp. 335, Judge Ryan at 349 wrote:

“To permit permissive intervention, even though a common question of law and act is presented, the intervenor must present ‘a claim in addition to the issues of the main suit.’ Per Conger, J. in *Kind v. Markham*, D. C., 7 F. R. D. 265, 266.”

In *Bachrach v. General Inv. Corporation*, 29 F. Supp. 966, at page 968, we have more judicial expression confirm-

ing that intervention is not only not had for the mere asking but requires timely, affirmative and correct conduct and procedure.

"The decisions cited by the applicants with regard to the necessity of demand as a condition precedent to intervention are state court decisions. In the federal courts, the rules governing stockholders actions and intervention differ from similar actions in the state courts. I think it is properly urged that under our decisions and under the new Federal Rules of Civil Procedure, not only is a demand necessary prior to intervention with the same force as if the intervention was an independent suit, but under the present rules the application to intervene is defective if unaccompanied by a proposed pleading. Such proposed pleading is absent in the instant case.

So upon these grounds and upon the undue delay in making this application short of the trial itself which is scheduled for October of this year, the court is constrained to deny the application as a matter of discretion."

Jurisdiction—Collusion: Forum—Venue.

In *Nierbo v. Bethlehem Shipbuilding Corp.*, 308 U. S. 165, 84 L. ed. 167 (1939), Mr. Justice Frankfurter, writing for the Court, at page 170, said:

"The jurisdiction of the federal courts—their power to adjudicate—is a grant of authority to them by Congress and thus beyond the scope of the litigants to confer. But the locality of a lawsuit—the place where judicial authority may be exercised—though defined by legislation relates to the convenience of litigants and as such is subject to their disposition."

In *Kentucky Natural Gas Corporation v. Duggins*, 165 F. 2d 1011, 1014, the Court touched upon each of the words-of-art of this subdivision thus:

"Before discussing what we consider the real issue in the case, we may state that we do not agree with one of the contentions of appellants that the District Court lacked jurisdiction because of collusion between the plaintiff and intervening petitioners below in seeking jurisdiction. The refusal of the plaintiff's attorney to represent any of the heirs of Delia Spencer except the plaintiff, C. H. Duggins, in order to be able to bring his action in the Federal District Court, if such is the case, is not collusion as the term is generally used and understood. The plaintiff had the right to prefer to take his litigation into the Federal Court, instead of proceeding in one of the courts of the State, if the facts were not feigned or made merely colorable for that purpose. Nor does the fact that the other heirs intervened later through a different attorney, as they had a legal right to do, make the combined attack an improper one. The Court will not inquire into a litigant's motives when deciding concerning its jurisdiction, provided no improper act is done in order to confer jurisdiction. *Re Metropolitan Railway Receivership*, 208 U. S. 90, 110, 111, 28 S. Ct. 219, 52 L. Ed. 403; *Black & White Taxicab Co., v. Brown & Hellow Taxicab Co.*, 276 U. S. 518, 524, 525, 48 S. Ct. 404, 72 L. Ed. 681, 57 A. L. R. 426.

Such intervention may defeat jurisdiction on other grounds, as hereinafter pointed out, but not because of collusion."

In the State courts the rule is similar. For example, in a recent New York case, *E. B. Latham & Co. v. May-*

flower Industries, Inc., 278 App. Div. 90, 103 N. Y. 2d 279, it was held at 232-283 of the Supp. Rep.:

"Aside from the fact that plaintiff is asking our court to enjoin Mayflower, a New Jersey corporation, and Morris S. Segal, a New Jersey resident, from prosecuting in the New Jersey court an action against Thor, an Illinois corporation qualified to do business in New Jersey, and Teldisco, Inc., a New Jersey corporation, a suit in which plaintiff is not a litigant, we think that the complaint insofar as it seeks injunctive relief is insufficient. There is no allegation in the pleading that the New Jersey action was instituted in bad faith or that it was motivated by fraud or in an attempt to evade the law or public policy of this state. *The mere averment that appellants conspired to have Mayflower bring the action in New Jersey does not suggest any wrongful purpose.*" (emphasis supplied.)

In *Paramount Pictures v. Blumenthal*, 256 App. Div. 756, 11 N. Y. Supp. 2d 768, the Court at page 771 said:

"A litigant may select the forum in which to ask for relief. The motive for such selection is not ordinarily open to scrutiny. The litigant may believe that he will be enabled to secure some advantage which he would not have if he brought his suit in the forum of his adversary, and this alone is not a ground for interfering with the generally recognized right to sue in any court having jurisdiction of the cause of action and competent to afford relief."

In *Re Metropolitan Street Railway Receivership*, 208 U. S. 90 (1908), complainants and defendants had arranged that suit should be brought in the Federal Court and that

the averments of the bill should be admitted by the answer. The Court held (p. 110) :

“In this case we can find no evidence of collusion, and the Circuit Court found there was none. It does appear that the parties to the suit desired that the administration of the railway affairs should be taken in hand by the Circuit Court of the United States, and to that end, when the suit was brought, the defendant admitted the averments in the bill and united in the request for the appointment of receivers. This fact is stated by the Circuit Judge; but there is no claim made that the averments in the bill were untrue, or that the debts, named in the bill as owing to the complainants, did not in fact exist; nor is there any question made as to the citizenship of the complainants, and there is not the slightest evidence of any fraud practiced for the purpose of thereby creating a case to give jurisdiction to the Federal court. That the parties preferred to take the subject matter of the litigation into the Federal courts, instead of proceeding in one of the courts of the State, is not wrongful. So long as no improper act was done by which the jurisdiction of the Federal court attached, the motive for bringing the suit there is unimportant. *Dickerman v. Northern Trust Co.*, 176 U. S. 181, 190; *South Dakota v. North Carolina*, 192 U. S. 286, 311; *Blair v. City of Chicago*, 201 U. S. 400, 448; *Smithers v. Smith*, 204 U. S. 632, 644.”

Moot Cases; Academic Questions.

“ * * * * It is elementary that the Court is not bound to determine questions which have become academic.” *Ford Motor Co. v. National Labor Relations Board*, 305 U. S. 364, 83 L. ed. 221 (1939).

And in *United States v. Alaska S. S. Co.*, 253 U. S. 113, the Supreme Court held, at page 116:

“ * * * Where by an act of the parties, or a subsequent law, the existing controversy has come to an end, the case becomes moot and should be treated accordingly * * *. ”

In a *per curiam* decision the Supreme Court of the United States, in *St. Pierre v. United States*, 319 U. S. 41 at page 42 held :

“ * * * We are of the opinion that the case is moot because, after petitioner's service of his sentence and its expiration, there was no longer a subject matter on which the judgment of this court could operate. A federal court is without power to decide moot questions or give advisory opinions which cannot affect the rights of the litigants in the case before it. *United States v. Alaska S. S. Co.*, 253 U. S. 113, 115-16 and at cases cited; *United States v. Hamburg-American Co.*, 239 U. S. 466, 475-77. * * * ”

No matter how a Court learns of an action's mootness it becomes its duty to ascertain the facts in its own interest as well as in the public's interest. In *Puget Sound Power & Light Co. v. City of Seattle*, 271 Fed. 958 (1921), the Court at page 963 held :

“There doubtless is a question as to the propriety of considering the showing made by the affidavit on a motion to dismiss the bill; but, if the cause has become entirely moot by the payment of the installment of interest due March 1st, *in the interests of the public and the court, it would be the latter's duty to consider such a question at any stage of the proceeding, however presented or suggested, and, if it is certain that only a moot question remains, to*

dismiss the suit in order to devote the time and effort which would be required for its consideration to other public business.” (emphasis supplied.)

Statement of Issue Preliminary to Argument

In his Opening Brief (hereinafter, sometimes “Op. Br.”) Mr. Reich at page 11 enumerates eight instances wherein the “District Court erred”:

The Castlemans and Feuerman in the course of their brief will attempt to demonstrate not only the entire correctness of Judge Ben Harrison’s decision and judgment but also will attempt, simultaneously, to demonstrate the lack of substance in the said alleged “errors”. To achieve this objective and at the same time avoid a formalistic “one-point, one-answer” type of brief the Castlemans will make the direct and realistic approach.

Statistically, both the Record and the Opening Brief are predominantly concerned with lawyer’s fees. For example the Opening Brief devotes 13 out of 54 pages to the topic of lawyer’s fees (or 22% thereof); and the Record similarly devotes at least 105 out of 389 pages (or 26% thereof) to the same subject. Moreover, said Opening Brief concludes with the prayer for a hearing on two “motions (2) for attorney’s fees and costs”.

Consequently, the Castlemans and Feuerman respectfully submit, directly and realistically, that the true issue on this appeal is attorney’s fees. They submit that the issue may be stated in the form of the following question:

“Did Judge Harrison (a) err in dismissing the action below, and (b) abuse his discretion in denying fees to Mr. Reich therein, while (c) relegating him to a different arena for his costs and fees, if any?”

ARGUMENT

I

Judge Harrison correctly dismissed the action with prejudice on the motion of RKO, supported by the "Relevant Documents From the Nevada and Delaware Courts".

Said documents, consisting in part, of unreversed judgments of the courts of Nevada and Delaware compelled the granting of the motion to dismiss said action under the Full Faith and Credit Clause of the Constitution; by reason of *res judicata*, under the Nevada judgment, and, by reason of mootness, under the Delaware judgment.

The Nevada and Delaware judgments may not be collaterally attacked in California.

Judge Harrison bottomed his decision to dismiss the action below on "the occurrence of two events since the institution of" the action below (R. 356).

The first "event" was the sale of all of the assets of RKO Pictures Corp., including all the causes of action against all persons including Howard R. Hughes (R. 356, 195, 324); the detailed history of said transaction is to be found in *Schiff v. RKO Pictures Corp.*, 104 A. 2d 267 (R. 356). This litigation arose when an injunction against the consummation of said sale was sought by RKO shareholders who charged that the price was inadequate. Judgment on the merits in favor of RKO was duly entered in March 1954 (R. 193-194). Thereafter said sale was "fully and finally consummated" (R. 232).

That this acquisition would serve to "by-pass the impending derivative waste actions against (Hughes) * * *

does not condemn the transaction," (104 A. 2d 267 at 281) held the Chancellor of Delaware.

Thereby the action below was rendered moot and so Judge Harrison held (R. 356).

Where a cause of action between the parties has ceased to exist or where there is no actual controversy involving real and substantial rights between the parties to the record the case should be dismissed.

Little v. Bowers, 134 U. S. 547, 33 L. ed. 1016;
San Mateo County v. Southern Pac. R. R., 116 U. S. 138, 29 L. ed. 589;
California v. San Pablo & TR Co., 149 U. S. 308, 37 L. ed. 747.

The courts deal with concrete legal issues presented in actual cases, not with abstractions.

U. S. v. Appalachian Elec. Power Co., 311 U. S. 377, 85 L. ed. 243.

In *Brownlow v. Schwartz*, 261 U. S. 216, 67 L. ed. 620, the Court had before it an applicant who had been refused a building permit for which she sued. Between the allowance of the writ of error and the hearing by the Court she sold her property. Calling the case moot the Court wrote:

"It thus appears that there is now no actual controversy between the parties—no issue on the merits which this court can properly decide. *The case has become moot for two reasons: * * ** (2) because, the first reason aside, petitioner no longer has any interest in the building, and therefore has no basis for maintaining the action.

"This court will not proceed to a determination when its judgment would be wholly ineffectual for want of a subject matter on which it could operate. * * * " (emphasis supplied.)

In the instant case the sale by RKO of all of its assets was fully and finally consummated. It (RKO) "therefore has no basis for maintaining the action." (*Brownlow v. Schwartz, supra*). Consequently, no shareholder of RKO can maintain the action. (*Koster v. Lumbermans' Mutual Casualty Co., supra*; Rule 23(a) and (b) .

In *Doremus v. Board of Education*, 342 U. S. 429, 96 L. ed. 475 (1952) a state statute involving the reading of Bible verses in a public school was attacked by the parent of a pupil who had graduated before the appeal from State's highest court was taken. In that situation the Court said at page 479:

"Obviously no decision we could render now would protect any rights she may once have had, and this Court does not sit to decide arguments after the events have put them to rest. *United States v. Alaska S. S. Co.*, 253 U. S. 113, 116."

With no right of action in RKO and none in any of its shareholders there was no reason for Judge Harrison to sit to decide incidental questions such as fees. In *Wagner v. Boggess Coal & Supply Co.*, 94 N. E. 2d 64, 66, where a contention to the contrary was made, the Court held:

"It is contended that there remains a question as to the determination of costs. In Vol. 1, C. J. S., Actions, Sec. 17, p. 1015, it is stated that: 'Jurisdiction will not be retained merely to determine incidental questions such as costs.' In *Miner v. Witt, supra*, * * * holds * * * and the determination of questions presented by the record would, so far as this case is concerned: *affect nothing but the question of costs. There is nothing left but a moot case'.*" (emphasis supplied.)

The second "event" was that "action involving the same issues * * * has gone to judgment on all of these

issues.' And, "That judgment must be given the effect of *res judicata* by this Court".

The relevant certified copies of the Nevada action and judgment were before Judge Harrison (R. 194). The Findings of Fact and Conclusions of Law (R. 223-225) took cognizance of the raising of the issue of jurisdiction in the Nevada Court. That issue was resolved in favor of jurisdiction, expressly and explicitly, by the Nevada Court. Such a finding on that questioned issue rendered it invulnerable to collateral attack.

In *Rippberger v. A. C. Allyn*, 113 F. 2d 332, the Court had before it the same type of question—of collateral attack on a judgment where there was a decision in favor of jurisdiction.

Both phases of the question were taken up and squarely answered thus, at page 333:

"The appellant concedes, as he necessarily must on the authorities, that a *decision in favor of jurisdiction is res judicata and invulnerable to collateral attack*, even though the ground on which the decision has rested has subsequently been overruled. (citing cases) * * * A court has power to determine whether or not it has jurisdiction of the subject matter of a suit and of the parties thereto. As Mr. Justice Brandeis remarked in *American Surety Company v. Baldwin*, supra, 'The principles of *res judicata* apply to questions of jurisdiction as well as to other issues'." (emphasis supplied.)

Since the action below was a minority stockholder's derivative action "any judgment in such an action—the corporation being a party—binds all stockholders." In *Grant v. Greene Consol. Copper Co.*, 154 N. Y. Supp. 596, at 603:

"The plaintiffs contend that they are not bound by a decree in the action of any other stockholder,

regardless of whether the issues were or were not identical with those in the present action. Assuming that the corporation was a party to such other action (as it necessarily was), there can be no doubt that plaintiff is bound the same as if he had himself been plaintiff. In other words, plaintiff is bound by a judgment upon a similar cause of action in favor of a stockholder, whether the action purported to be brought in behalf of all other stockholders or not, the same as he would be bound by a judgment on similar issues against the corporation itself. *The stockholders' action being a derivative one, no stockholder has the right to sue for himself alone; his action is necessarily representative whether he calls it so or not, and any judgment in such an action—the corporation being a party—binds all stockholders.* Alexander v. Donohoe, 143 N. Y. 203, 38 N. E. 263; Brinekerhoff v. Bostwick, *supra*; Hawkins v. Glenn, 131 U. S. 319, 9 Sup. Ct. 739, 33 L. Ed. 184; Dana v. Morgan (D. C.) 219 Fed. 313; Willoughby v. Chicago Junction Ry. et al., 50 N. J. Eq. 656, 25 Atl. 277.” (emphasis supplied.)

Mr. Reich's collateral attack on the Nevada judgment takes the form of an affidavit “In opposition to Motion to Dismiss” (R. 242). In that affidavit, however, Mr. Reich makes the following statements:

“It is true that the complaint in the Nevada action and the amended complaint subsequently filed herein embraced the identical causes of action set forth in this action * * * ” (R. 253).

“I do not doubt that the motion to dismiss in Nevada was made and notices served as Mr. McDonald states * * * ” (R. 255).

Mr. McDonald had also stated (and it is the fact) in his paragraph "3" as to which Mr. Reich made the above admission as to identity of complaints that it was "the identical plaintiffs herein, Eli B. Castleman, et al., " who had instituted said suit in Nevada.

Consequently, it appears either by proof, admission or concession that all the elements precluding collateral attack are present, to wit, identity of parties, identity of issues, jurisdiction over parties and jurisdiction over subject matter. In such a posture the Nevada judgment is invulnerable to collateral attack in California (or in any other state).

In *Turner v. Alton Banking & Trust Co.*, 181 F. 2 899 (1950) the bank sued upon an Illinois judgment in a federal court in Missouri. There was a suggestion of lack of jurisdiction in the Illinois court. In sustaining the finality and conclusiveness of the Illinois judgment the Eighth Circuit at page 905 held:

"The judgment of the Illinois court is final and conclusive in all courts. It cannot be attacked collaterally in the federal court in Missouri. The Full Faith and Credit Clause of the Constitution, Art. IV, Sec. 1, has established 'throughout the federal system the salutary principle of the common law that a litigation once pursued to a judgment shall be as conclusive of the rights of the parties in every other court (federal as well as state) as in that where the judgment was rendered'. (citing cases). The place to have assailed the validity of the Illinois judgment was in the Illinois court. (citing cases).

"Due process does not require notice where rights are established in conformity with state law. (citing cases)"

Mr. Reich's collateral attack on the *Delaware* judgment is included in the same affidavit (R. 242 at R. 260). How-

ever, therein Mr. Reich does “ * * * not question the facts as alleged by Mr. McDonald * * * ”.

These are the facts which are not questioned:

1. On February 16, 1954 Schiff *et al.*, RKO shareholders filed Civil Action 491 (in Delaware Chancery Court) to enjoin the sale of RKO's assets to Hughes on the ground of inadequacy of price;
2. RKO filed its answer February 18, 1954 and the case was tried on the merits beginning March 8, 1954;
3. On March 26, 1954 the Chancellor handed down a 34 page opinion holding plaintiffs not to be entitled to the relief sought; and
4. Judgment on the merits in favor of RKO was duly entered (R. 193-194; certified copies of the relevant documents were before the Court below).

On the basis of *Grant v. Greene Consolidated Copper Co.*, *supra*, and upon all the other cases therein cited the judgment in the Delaware action “binds all stockholders”.

Moreover, by reason of the doctrines enunciated in *Rippberger v. A. C. Allyn* and *Turner v. Alton Banking & Trust Co.*, *supra*, the Delaware judgment is invulnerable to collateral attack in California (or in any other state).

Finally and conclusively, there is the most recent case of *Stella, etc. v. Kaiser et al.*, 218 F. 2d 64 (advance sheets, Feb. 28, 1955, #1) which embraces all of the aspects inherent in the disposition of minority stockholder actions.

In the opening words of Chief Judge Clark of the Second Circuit:

“This appeal concerns the effect as res judicata and bar of a decree of settlement entered by a federal court pursuant to F. R. C. P., 23(c), and of the releases executed thereunder.”

After reciting the procedural steps preceding the entry of the judgment (in Michigan) reference is made to the attempted resumption by this plaintiff of his activities in his New York action. The Michigan judgment thereupon was successfully pleaded in bar below. A reversal of the summary judgment was sought. In sustaining the judgment Judge Clark, at page 65, continued:

"There is no doubt that this claim was one of those compromised and settled by the Michigan decree (see Pergament v. Frazer, *supra*, D. C. E. D., Mich., 93 F. Supp., 13, 33-35), Plaintiff was an active litigant in the proceedings there and is bound under the principles of *res judicata* at least with respect to those defendants who were parties of record in Michigan (*Baldwin v. Iowa State Traveling Men's Ass'n*, 283 U. S. 522). Even without his active participation Stella would have been bound by the Michigan court's action, since it was a conclusive adjudication of a 'true' class action (*Hansberry v. Lee*, 311 U. S. 32, 132 A. L. R., 741; 3 *Moore's Federal Practice*, par. 23.11, 2d ed., 1947; *McLaughlin, Capacity of Plaintiff-Stockholder to Terminate a Stockholder's Suit*, 46 Yale L. J., 421, 424), and since, moreover, there was adequacy of notice and representation as found by the Sixth Circuit (*Masterson v. Pergament*, *sup*, 6 Cir. 203 F. 2d, 315, 330; see *Dickinson v. Burnham*, 2 Cir., 197 F. 2d, 973, certiorari denied 344 U. S. 875, and proposed Rule 23(d) in Preliminary Draft of Proposed Amendments to Rules of Civil Procedure for the United States District Courts, May, 1954, pages 15-17, discussed in *Wright, Amendments to the Federal Rules; The Function of a Continuing Rules Committee*, 7 *Vand. L. Rev.*, 521, 439-540).

Plaintiff asserts, however, that the settlement itself was procured by fraud and that the Michigan decree

is subject to attack for failure to decide this issue. But in this he is in error, for the fraud issue was in fact disposed of adversely to him by the Court of Appeals (Masterson v. Pergament, supra, 6 Cir., 203 F., 2d, 315, 330-331). Since this issue was repeatedly raised, it cannot now be made the basis for collateral attack (De Bobula v. Goss, D. C. Cir., 193 F., 2d, 35).'' (emphasis supplied.)

So, here, is the Nevada judgment invulnerable to collateral attack in California.

II

Judge Harrison did not abuse his discretion when he denied fees to Mr. Reich, by reason of the Nevada judgment, or otherwise, as a matter of discretion, and relegated him to a different arena (where he presently is).

In "Law and the Modern Mind" by (now, Circuit Judge) Jerome Frank, there appears on the unnumbered pre-introductory page, without citation, the following quotation attributed to O. W. Holmes:

"General propositions do not decide concrete cases."

Neither can the instant case be decided on general propositions. In the 13 pages devoted by Mr. Reich to the topic of lawyers' fees in stockholder's suits we find an abundance of "general propositions" with which one can hardly quarrel, but when they are related to the 105 pages of the record, i.e., to the "concrete case", the enduring wisdom of Justice Holmes' comment is newly appreciated.

Before turning to any of the "general propositions" whether quoted by Mr. Reich or, *infra*, by the Castlemans

it would be well to do what this Court recently did in *Western Pacific R. Corp. et al., v. Western Pacific R. Co. et al.*, 206 F. 2d 495. In that case this Court sensed the presentation of an innuendo which was coupled with the Robin Hood philosophy that undeserved riches should be divided with the poor. Dragging it into the light, this Court in footnote #7 at page 498 wrote, in part:

“Lurking in the background of this case is a specious element which has no proper place in the decision but which when injected by innuendo casts its shadow across the record. * * * ”

More than the specious element of the kind referred to by this Court is present. The Robin Hood philosophy, complete with references to the “poor and little people” (R. 377) and to the fees of New York counsel, is expectedly there (R. 282, 292). There is also the anticipated reference to “* * * Mr. Hughes’ power and influence” and to the fact that people “* * * are in fear of him * * * ” (R. 294). (Though, paradoxically, Mr. Hughes apparently was in fear of Mr. Reich (R. 291).

One genuinely “specious element” here is the fallacious logical doctrine expressed in the phrase *post hoc ergo propter hoc* (R. 291, 341).

There may be reported cases of applications for fees in stockholder actions (*infra*) based on the “but for—” theory of causation. In those cases, however, each claimant has, at least, postulated some direct, necessary and causal connection between his activities and the result.

Mr. Reich in his bid for fees herein, however, goes beyond any logically or legally permissible bounds (R. 291). His paragraphs “19” and “20” do not use the words “but for” although in “19” he is saying that the California action was *an* “inducing factor” and in “20” saying that he need *not* claim that *he* was the “*sole* inducing force”.

This is outright tautology. Then in the very same paragraph he departs not only from fact but also from logic and postulates, in purest "post hoc ergo propter hoc"—style, thus:

"* * * It is enough to prove that the corporations benefited to the extent of \$12,000,000 or even \$2,000,000, and that I rendered legal services in connection with the various cases (stet) which led to the compromise. * * * "

There is no case cited by Mr. Reich nor any known to the Castlemans which supports the proposition expressed by Mr. Reich in his fee application. On the other hand in *Thomas v. Peyer*, 118 F. 2d 369 the Court had occasion to pass upon the invocation of the "but for"—rule by a fee applicant. There are several points of similarity to the instant case which warrant the quotation therefrom of the following two paragraphs at page 371:

"* * * Notwithstanding the later suit was successful and theirs was dismissed, appellants assert that it was the filing of their suit which caused the plaintiffs in the second one to rush into court in order to secure control of the litigation and prevent them and their client from doing so. Consequently, it is claimed, but for the filing of the first, the second would not have been commenced and therefore the benefits which accrued from it must be attributed to their action in filing the first one.

The argument amounts to an effort to apply in the present circumstances the 'but for' rule of causation, which has been applied in others but rarely and dubiously. Except as to facts which have been adjudicated in previous phases of this litigation, we find nothing in the record to show that the contention is based on anything more substantial than the time sequence in the commencement of the two pro-

ceedings. That in itself, of course, is hardly probative that filing the first induced filing of the second suit. To the contrary, both the record and appellants' argument show that the second one was planned long before appellants filed the first one. This is implicit in their charge that the later suit was but a step in the alleged conspiracy to defraud. In view of this, the conclusion is equally tenable, though we do not draw it, that appellants' suit was begun in order to anticipate and defeat the other one." (emphasis supplied.)

Another "specious element" is the one reflected in Mr. Reich's insinuation about efforts to *evade* payment of counsel fees (Op. Br. 46). The short answer to this "specious" insinuation is to be found in the affidavit of Mr. Reich himself who swears: "The fact is that I received a notice of motion inviting me to come to Las Vegas and make application for fees" (R. 251). To talk of evasion in such a circumstance is indeed specious. The more so, when coupled with this statement from his Opening Brief, page 49 "In the third place *the Nevada Court awarded fees to the plaintiffs for all counsel, including Reich.*"

Mr. Reich equivocates as to the fee situation as he does as to his discharge. From Paragraph 7 of the Final Order of the Nevada Court (Op. Br. 49) Mr. Reich would deduce that somehow his fees had been passed upon and awarded. If this Final Order is operative as to Paragraph 7 then, consistently, it must be operative as to Paragraph 10 (R. 239). There is to be found the direct judicial finding by the Nevada Court that excludes Mr. Reich as a person who had conferred any benefit on RKO or who had rendered compensable services to it or its shareholders.

The proceedings leading to the making and entry of the Final Order in Nevada were neither novel nor unusual. In *Waterman Corp. v. Johnston*, 122 N. Y. Supp. (2) 695.

a similar procedure was followed, with judicial appropriation of a total sum "for allocation to the various applicants". The similarity encompassed ruling on fees for out-of-town counsel. At page 702 Mr. Justice Eder held:

"The fund here to be allocated for the services rendered by counsel in other jurisdictions in relation to or in connection with this action is under the control of this Court, and it is its view that compensation should be awarded and paid to those who in the opinion of the court merit it irrespective of the fact that the services were rendered by the applicants in another jurisdiction or before a court in another jurisdiction." (emphasis supplied.)

Assuming, *arguendo*, that Mr. Reich did *not* receive notice to come in to Nevada and establish his right to fees he would still be bound under *Mullane v. Central Hanover B & T Co.*, 339 U. S. 306, 94 L. ed. 865.

Similar instances of judicial disposition in one jurisdiction of fees for services rendered in other jurisdictions are to be found in:

Winkleman v. General Motors, 48 F. Supp. 504 (S. D. N. Y., 1942);
Diamond v. Davis, 62 N. Y. S. 2d 175 (Sup. Ct., N. Y. 1945).

In each of these cases an award was made for services rendered in another case, in another court. In the first a federal court made an award to counsel in a "stayed" state court case and in the *Diamond* case a state court made an award to counsel who had been stayed in a federal court case. Both of these cases were stockholder derivative actions.

And so we come to the time, some months after Mr. Reich's rejection of the opportunity to apply for fees in

Nevada that he applies to the California Court for Fees (R. 264, 284).

Judge Harrison had at least 20 contacts with the action (Index, R. iii, iv). He saw, heard and observed all counsel some of the times. He had voluminous affidavits, exhibits and papers from all of the parties (R. 381-384).

Whereas the printed Record, statistically, is concerned 26% with fees, if the unprinted papers were added the percentage would most likely double.

Much of the record before Judge Harrison reflects the termination of the attorney-client relationship with Mr. Reich and the dispute as to its consequences as a matter of fact and of law (R. 367, 371).

Judge Harrison at that time had before him the papers in the Nevada proceedings (R. 194). He also had before him the record of the Delaware action. He had the entire record to date plus Mr. Reich's fee applications and the opposing affidavit of Mr. Kipnis (R. 318).

His "Memorandum Granting Motion to Dismiss" (R. 356) reflects the careful consideration of all of the aspects of the issues involved in RKO's motion to dismiss with prejudice, which he, as an experienced jurist, brought to bear on the matter.

As an experienced jurist, it can be assumed that Judge Harrison was familiar with the doctrines expressed in the cases cited below.

In *Thomas v. Thomas*, 34 N. Y. Supp. 2d 320 (1942) at 323 it was held:

"No special formality is required to effect the discharge of the attorney and the termination of the relationship; any act of the client indicating an unmistakable purpose to sever relations is enough and

there can be no further legal continuance in the case by the discharged attorney or valid appearance for or representations of the client. *Ryan v. Martin*, 18 Wis. 672; *In re Shafer's Estate*, 39 Pa. Super. 384."

Across the continent there is similar authority. In *re Mueseler's Estate*, 220 P. (2nd, 18 (1950) (Dist. Ct. of App., See. Dist. Div. 3, Calif.) that Court at page 20, held:

"The written dismissal of the attorneys ended their authority. See 3 Col. Jur. 628, 636."

As Judge Harrison and this Court well knows, a "client" may discharge an attorney at any time, with or without cause, whether there is a contract of retainer or not, and whether the fee arrangement is contingent or fixed.

In *Crowley v. Wolf*, 281 N. Y. 59 (1939) at page 65, Judge Hubbs wrote:

"Where an attorney is hired on a contract, his payment to be a contingent fee, the client has the right to dismiss the attorney any time before the contract by its terms is to expire, and is not liable for the contract price. * * * Where the contract is extinguished by dismissal and not by the expiration of the term named in the contract, the client is liable on a quantum meruit unless the dismissal was justified. (citing cases). *If a discharge is justified there can be no recovery on quantum meruit*. *Fletcher v. Kellogg*, 55 App. D. C. 351, 6 F 2d, 476, 40 A. L. R. 19525; *Holmes v. Evans*, 129 N. Y. 140, 29 N. E. 233." (emphasis supplied.)

Mr. Reich's equivocation to the contrary notwithstanding, he was discharged for cause (R. 327, 330) on May 7, 1953.

The consequence of such a termination of a relationship is, "no compensation". *Bloom v. Irving Trust Co.*, 272 N. Y. Supp. 637, where at page 640, the late Mr. Justice Shientag wrote:

"*Where an attorney has been retained on the basis of a fixed or contingent fee, and is discharged for cause, he may not recover any compensation at all.* The contract is an entire one, and, as in any other contract, the attorney must show proper performance in accordance with his retainer before he is entitled to compensation. *In re Badger*, 9 F. (2d) 560 (C. C. A., 2d Circuit)."

And in *Re Badger*, 9 F. (2) 560, justifiable cause is again shown to preclude compensation. The rule is there stated thus:

"The rule is that, where an attorney has been retained on a specific contract and has been discharged for a justifiable cause, he may not recover compensation either in an action upon contract or upon a quantum meruit basis."

As we see it, after Judge Harrison had determined to dismiss the action below, his judicial supervision of the case was over. The only reason why Judge Harrison had to make any ruling on the matter of counsel fees stems from the motions made by Mr. Reich for an award of fees to himself in the California action.

The jurisdiction of Judge Harrison to make an award of fees to Mr. Reich was called into question by the Castlemans (R. 341) and Judge Harrison was urged that even if he did have jurisdiction he do not exercise his discretion in favor of Mr. Reich (R. 341). Having made his deliberate choice as between the Nevada Court and the California Court, Mr. Reich is bound thereby:

"The fixing of allowances has been called 'the most thankless and delicate task in all of the problems of judicial reorganization,' Frank, Epithetical Jurisprudence and the Work of the Securities and Exchange Commission in the Administration of Chapter X of the Bankruptcy Act, 18 N. Y. U. L. Q. Rev. 317, 349-50, 1941, and 'one of the most disagreeable and perplexing tasks which falls to the lot of a District Judge.' Silver v. Scullin Steel Co., 8 Cir., 98 F. 2d 503, 506. Recognizing this, *and recognizing*, too, *the peculiar advantage which the district judge has by virtue of his intimate knowledge of the whole history of the reorganization, appellate judges can come to the conclusion that the lower court has exceeded its discretion in granting allowances only with the greatest reluctance'*, * * * Finn v. Childs Co., 181 F. 2d 431.

To similar effect is *Roth v. Reich*, 164 F. 2nd 305.

A case which is even more analogous to the instant one, insofar as the fee application is concerned, is *Doggett v. Deauville Corporation*, 148 F. 2nd 881. In that case too (a) there was a dispute between counsel, (b) pendency in different courts of litigation and (c) the commencement of a plenary suit by an attorney against his client for fees. There the Circuit Court sustained the discretion of the Court below which remitted the whole matter of attorneys compensation under his contract to a plenary suit.

This Court may take judicial notice of its own files from which it will ascertain that there is pending in the State Court of New York a plenary suit by Mr. Reich against the Castlemans and their New York counsel (Louis Kipnis affidavit November 18, 1954).

Compensation, if any, for stockholders in derivative actions is made directly to the stockholder and not to his

attorney. 13 Am. Jur., p. 514, Sec. 471; 13 *Fletcher Corporations*, Sec. 6045; *Holthusen v. Edward G. Budd Mfg. Co.*, 55 F. Supp. 945.

In a recent New York case the Supreme Court held, in discussing the same subject matter, in *Margaretten v. Horowitz*, 112 N. Y. Supp. (2) 24 at page 26:

"The court is of the opinion that the underlying purpose of the allowance of counsel fees to plaintiffs in derivative actions is to be reimburse or indemnify plaintiff for reasonable counsel fees and expenses. Where, as here, the plaintiff takes the position that the counsel fee has been paid in full and the plaintiff does not join in the application for counsel fees, there is no basis for assessment against the defendants."

Moreover, said claim for allowances being personal to the Castlemans, Mr. Reich is precluded from any compensation in the California action particularly by reason of the Nevada judgment, in addition to the other reasons urged below.

In the light of the foregoing, this Court should not disturb the decision and judgment of Judge Harrison.

III

No error was committed by Judge Harrison in any aspect of his supervision of the action.

Mr. Reich has made separate charges of error *vis-a-vis* Judge Harrison's supervision of the action below.

Some of these charges are insubstantial and the others, which called for the exercise of discretion, are beyond Appellate correction.

Insofar as "failing to grant" the motion for intervention is concerned, no error was committed by Judge Harrison since we have seen that intervention is not to be had simply for the asking and requires the exercise of discretion following a motion under Rule 24. There are two answers to Mr. Reich's charge. First, and equating "failing to grant" with outright denial, it was discretionary on Judge Harrison's part to grant or deny the motion and, absent an abuse of discretion, his ruling may not be disturbed.

As an experienced jurist of California, Judge Harrison was probably cognizant of this holding in *Mann v. Superior Court of Los Angeles County*, 127 Pac. (2d) 970, at 975:

" * * * a stockholder's derivative suit, involving as it often does the possibility of financial returns, is not an open sesame for fees to counsel for interveners."

Moreover, Judge Harrison (and Judge McNamee) had been bombared with letters from Mr. Reich and others dealing tangentially with the case. Others, not parties to the action, were the recipients of carbon copies thereof (R. 112-113).

Second, Mr. Reich *pre-supposes* a "timely" application. As self-demonstrated below the motion was *not* timely. No error was committed here.

* * *

No error was committed in failing to appoint a special master. The short and obvious answer to this charge of error is found in the single sentence of Rule 53(b):

"A reference to a master shall be the exception and not the rule."

* * *

The remaining charges of error (other than those separately treated in this brief) involve purely interlocutory or administrative aspects of Judge Harrison's supervision of the action.

There was a wide area of discretion which Judge Harrison had. That he had exercised it correctly is borne out by the result herein.

The matter of putting "off-calendar" the motions of the parties (not only those of Mr. Reich) was unquestionably a discretionary matter. As the late Mr. Justice Cardozo wrote in *Landis v. North American Company*, 99 U. S. 248, 81 L. ed. 153 (1936) at page 158:

"Viewing the problem as one of power, and of power only, we find ourselves unable to assent to the suggestion that before proceedings in one suit may be stayed to abide the proceedings in another, the parties to the two causes must be shown to be the same and the issues identical * * * (citing cases). Apart, however, from any concession, *the power to stay proceedings is incidental to the power inherent in every court to control the disposition of the causes on its docket with economy of time and effort for itself, for counsel and for litigants*. How this can be done calls for the exercise of judgment, which

must weigh competing interests and maintain an even balance * * *. Occasions may arise when it would be 'a scandal to the administration of justice' in the phrase of Jessel, M.R. (*Amos v. Chadwick*, L. R. 9 Ch. Div. 459, 462), if power to coordinate the business of the court efficiently and sensibly were lacking altogether." (emphasis supplied.)

Mr. Reich's reference to "abdication" of jurisdiction bears no relation to the facts below.

See also:

P. Beiersdorf & Co. v. McGohey, 187 F. 2d 14;
Mottolese v. Kaufman, 176 F. 2d 301.

In this instance, a *fortiori*, was Judge Harrison's discretion unassailable since no stay *order* was made. Moreover, *he did what Mr. Reich had been asking him to do all along*. For example:

"I say only at this time that this action should not be dismissed and that *this Court should retain jurisdiction pending the outcome of the state action in Nevada*" (R. 55).

"*The undersigned does not insist that this Court try the case*" (R. 85).

"*I told Judge Harrison that I wanted the California action to be a stand-by action * * **" (R. 142).

"* * * I was willing to let Mr. Hughes' motion to quash to go by default on condition that the motion for security be opposed and that the *California action * * * would remain as a stand-by action * * **" (R. 169).

Then, when Judge Harrison took the responsibility for continuing the motions until after the Nevada case was disposed of Mr. Reich said:

"Very well, your Honor, I accept that ruling" (R. 247).

In the context of the instant record it ill-becomes Mr. Reich to accuse Judge Harrison of "anxiety to put 'this case to sleep' for good * * *" (Op. Br. 21). It is of a piece with the gratuitous insult to the Nevada Court, which, Mr. Reich avers "** * * had permitted itself to be used to lure*" him into Nevada "** * ** so as to give some respectability to the defendants' (and plaintiff's New York counsel's) claim of res judicata" (R. 260).

* * *

The matter of reviving the motion to quash or to vacate the dismissal, to the extent demanded by Mr. Reich, was a strictly administrative or procedural exercise of discretion within the orbit of the *Landis* case, *supra*.

* * *

The matter of receiving affidavits from Messrs. Herzbrun, Silver, Kipnis or Mittelman was similarly within the *Landis* orbit.

* * *

Now, assuming without conceding that somewhere along the line in this "standby action", and in which a stipulation against further proceedings was outstanding (R. 37-38), that Judge Harrison committed an error. We look to the Rules for an answer. Rule 61, in part, reads as follows:

*"Harmless Error. No error * * * in any ruling or order or in anything done or omitted by the court * * * is ground for * * * vacating, modifying or otherwise disturbing a judgment or order, unless refusal to take such action appears to the court inconsistent with substantial justice. * * * "* (emphasis supplied.)

Guided by that Rule no "error" complained of by Mr. Reich is ground for vacating, modifying or otherwise disturbing the judgment below.

Moreover, we are told in *Gillis v. Keystone Mutual Casualty Co.*, 172 F. 2, 826 at 830:

“ * * * This rule is intended for the guidance of the district court, but it should be heeded by the appellate court to make it effective. *University City v. Home Fire & Marine Ins. Co.*, 8 Cir. 114 F. 2d 288.”

With this Court similarly heeding the Rule no cognizable ground for vacating or modifying the judgment below is available.

CONCLUSION

No error having been committed below and no abuse of discretion having been shown the judgment of the District Court should be affirmed, in all respects, with costs.

Respectfully submitted,

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and

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May, 1955.

No. 14573

IN THE

United States Court of Appeals FOR THE NINTH CIRCUIT

ELI B. CASTLEMAN, MARION V. CASTLEMAN, LOUIS FEUERMAN, JULIUS NOVEMBER, ELEANOR NOVEMBER, and BERNARD REICH,

Appellants,

vs.

HOWARD R. HUGHES, RKO PICTURES CORPORATION, RKO RADIO PICTURES, INC., THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK, ELI B. CASTLEMAN, MARION V. CASTLEMAN and LOUIS FEUERMAN,

Appellees.

APPELLANTS' REPLY BRIEF.

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JUN 25 1955

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TOPICAL INDEX

	PAGE
Preliminary comments	1
Argument	4
I.	
The Nevada state judgment, being subject to attack for collusion, etc., is not res judicata until the issue is tried in the court where it is legally and in good faith raised.....	4
II.	
No stockholder or his attorney is estopped from challenging the Nevada state judgment for collusion (except possibly the Castlemans and Feuerman personally).....	6
III.	
The Nevada judgment did not meet the requirements of due process	7
IV.	
Neither the Delaware action nor the sale to appellee Hughes of all assets rendered the action herein moot.....	8
V.	
The appeal from the final judgment brings up for review important intermediate matters.....	10
VI.	
Counsel fees can be assessed against appellee RKO.....	14
VII.	
Counsel fees can be assessed against the appellees Castleman and Feuerman	15
Conclusion	17

TABLE OF AUTHORITIES CITED

CASES	PAGE
Cohen v. Young, 127 F. 2d 721.....	4, 5
Cuthill v. Ortman-Miller Machine Company, 216 F. 2d 336.....	5, 12
E. B. Latham & Co. v. Mayfair Industries, Inc., 278 App. Div. (N. Y.) 90.....	6
Kentucky National Gas Corporation v. Duggins, 165 F. 2d 1011	5
Lewis v. Manufacturers Casualty Insurance Co., 107 Fed. Supp. 465	9
Malcolm v. Cities Service Co., 2 F. R. D. 405.....	9
Margarettten v. Horowitz, 112 N. Y. S. 2d 24.....	16
Masterson v. Pergament, 203 F. 2d 315.....	4
May v. Midwest Refining Co., 121 F. 2d 431.....	9
Mueseler's Estate, 220 P. 2d 18.....	16
Mullane v. Central Hanover Bank & Trust Co., 339 U. S. 306....	8
Nierbo v. Bethlehem Shipbuilding Corp., 308 U. S. 165.....	5
Paramount Pictures v. Blumenthal, 256 App. Div. (N. Y.) 756	6
Pellegrino v. Nesbit, 203 F. 2d 463.....	5, 12
Pergament v. Frazer, 93 Fed. Supp. 13.....	4, 5
Skirvin v. Mesta, 141 F. 2d 668.....	10
Stella v. Kaiser, 218 F. 2d 64.....	5, 6
Thomas v. Thomas, 34 N. Y. S. 2d 320.....	16
Turner v. Alton Banking & Trust Co., 181 F. 2d 899.....	8
	.....10, 11
Victor Talking Machine Co. v. George, 105 F. 2d 697.....	10
Webster Eisenhoehr, Inc. v. Kalodner, 145 F. 2d 316.....	8, 17
Western Union v. United States & M. T. Co., 221 Fed. 545.....	
Winkelman v. General Motors Corporation, 48 Fed. Supp. 490....	4

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Appellees.

APPELLANTS' REPLY BRIEF.

Preliminary Comments.

We hope to be forgiven for what should be immediately obvious.

1. No brief for the Appellee Hughes has been filed.

The Appellee RKO argues that service of process on Mr. Hughes, having been quashed below, he is "not before this Court," losing sight of the principle that an appeal from a final judgment brings up for review intermediate

orders or matters. (Please see Appellants' Op. Br. p. 24, *et seq.*)

2. Appellees have restated the facts based on *their* affidavits, without challenging Appellants' statement of facts as based on the record made, losing sight of the principle that where an action has been summarily dismissed, the allegations in the record supporting Appellants must, for the purposes of the appeal, be taken as true.

3. Appellees seek affirmance predicated on the *discretion* of the trial court, losing sight of the principle that where the trial court refuses a trial, abdicates its jurisdiction and fails to exercise its discretion, the judgment may not stand. (Please see Appellants' Op. Br. p. 24, *et seq.*; p. 31, *et seq.*)

4. The responsibility for the arrangement of the caption on appeal (erroneously challenged by Appellees) was the Clerk's, not ours.

5. The Appellees do not appear to have challenged a single law or fact citation set forth in Appellants' Opening Brief.

6. The New York attorneys' anger directed at plaintiffs' attorney of record stems from the latter's refusal to renounce his responsibilities to the Court as local counsel and his setting aside of the first dismissal entered by them without his knowledge or consent.

We would make one further preliminary comment, although it is perhaps less obvious than the others. The Appellee RKO, gently, and the Appellees Castleman and Feuerman, harshly, charge that plaintiffs' attorney of record has been motivated only by the question of fees,

losing sight of the fact that there are many lawyers who believe in the sanctity of their oath. [Please see Appellants' Op. Br., Appendix; also R. 371-373.]

We do, however, regret one thing: No matter how objective and unemotional we have aimed to be, we could not avoid the frequent use of the name of plaintiffs' attorney of record. We can only hope that the Court will be understanding of the problem which faced a lawyer trying in his perhaps inadequate way to maintain the responsibility and integrity of any local counsel, protect the interests of the stockholders, and yet keep in mind his obligations to his "trustee-clients."

Is it any wonder that this lawyer, turning to the District Court, asked [R. 373]:

"Mr. Reich: Well, your Honor, what would you do about it? What could I do about it? You advise me and I will do it. I just want to do what is right. You tell me what to do and I will do it.

The Court: I am not telling you what to do."

ARGUMENT.

I.

The Nevada State Judgment, Being Subject to Attack for Collusion, Etc., Is Not Res Judicata Until the Issue Is Tried in the Court Where It Is Legally and in Good Faith Raised.

The heading above is the very heart of the case and was treated at page 12, *et seq.*, of the Opening Brief.

Had the Court below tried the issue and found against the allegations, then the cases cited by Appellees would have had some applicability.

In *Masterson v. Pergament*, 203 F. 2d 315, 330, there was no opposition to the settlement, no proposed interveners, and no contention that the stockholders were not adequately represented.

In *Cohen v. Young*, 127 F. 2d 721, 724-725, there was a finding below of adequate representation. Nevertheless, on an appeal by a proposed intervenor who had been denied intervention below, the judgment was reversed over the opposition, as herein, of the plaintiffs.

In *Winkelman v. General Motors Corporation*, 48 Fed. Supp. 490, it was indeed held that the trial court's role is to ferret out fraud and collusion. This is the role which the Court below should have assumed when the issue was raised before it. The fact that it was also the role of the Nevada court does not convert a duty into a fact, or preclude by any "boot-strap" argument the stockholders from challenging the entire Nevada proceeding as collusive.

In *Pergament v. Frazer*, 93 Fed. Supp. 13, 16, the action tried was the action first filed. All objecting

stockholders who appeared in other courts appeared here. The Court tried the issues of collusion and inadequate representation.

In *Stella v. Kaiser*, 218 F. 2d 64, one of the out-of-state stockholders in *Pergament v. Frazer*, *supra*, attempted to *retry* the issue of collusion in his own state.

In the instant case, the issues of collusion and inadequate representation were "tried" in Nevada as between the very parties charged with collusion and fraud. [R. 114.] Appellees' argument here amounts to this: "We, whose very actions are challenged, are not subject to attack in California because between ourselves we have resolved the issues in Nevada." Unlike in the *Stella* case, *supra*, no stockholder here attempted to *try* the issue of collusion in Nevada; and therefore again unlike *Stella*, no stockholder, including the Appellants November, has attempted to *retry* the issue of collusion in the Court below.

Moreover, the Appellants November were denied intervention in Nevada. They had the right to intervene here.

Pellegrino v. Nesbit, 203 F. 2d 463 (C. A. 9, 1953);

Cuthill v. Ortman-Miller Machine Company, 216 F. 2d 336 (C. A. 7, 1954);

Cohen v. Young, 127 F. 2d 721, 724-725 (C. C. A. 6, 1942).

Nierbo v. Bethlehem Shipbuilding Corp., 308 U. S. 165, cited by Appellees Castleman and Feuerman, was a venue case as between Federal district courts, with no allegation of collusion.

Kentucky National Gas Corporation v. Duggins, 165 F. 2d 1011, involved the law question of whether selection

of a forum constituted collusion. It was not a stockholder suit and the issue of collusion was tried.

E. B. Latham & Co. v. Mayfair Industries, Inc., 278 App. Div. (N. Y.) 90, and *Paramount Pictures v. Blumenthal*, 256 App. Div. (N. Y.) 756, involved similar suits in which plaintiff sought to enjoin a foreign court without alleging fraud. Moreover, they were not stockholder suits.

II.

No Stockholder or His Attorney Is Estopped From Challenging the Nevada State Judgment for Collusion (Except Possibly the Castlemans and Feuerman Personally).

It is true that the Novembers sought to intervene in Nevada; but their application was denied. It is true that if they had appealed, assuming the denial appealable, and had lost, they *might* have been bound by the Nevada judgment. We say *might* because it would depend on whether the issue of collusion was litigated. The fact is that the Novembers never litigated that issue in Nevada, as did the stockholder *Stella* in 218 F. 2d 64.

In the instant case, the District Court suggested that interveners apply to the Nevada state court. However, when the Novembers applied in Nevada their application was denied; *when they applied below their application was not ruled on*.

Please note that the court below did not rule that the Novembers were estopped to intervene herein by reason of the denial in Nevada.

Moreover, a representative action is not like any other action. Assuming, as we must, the truth of the allega-

tion of collusion in the Nevada action, including the intervention proceedings, the question, no matter how raised, must be considered by a court of competent jurisdiction. What better forum than in the court where the action was commenced prior to the challenged* Nevada action?

As to Reich being "a mere volunteer," we thought that that argument had been disposed of below when the District Court made no order of substitution or of dismissal for lack of prosecution, and when this Court denied the motion to dismiss the appeal.

We thought also that when Appellees failed to challenge the principles governing the duties and rights of an attorney in this kind of action, as set forth in Appellants' Opening Brief, pages 43 and 44, that Appellees would cease making the issues personal to the attorneys.

III.

The Nevada Judgment Did Not Meet the Requirements of Due Process.

Because the District Court refused to try the issue, the ultimate correctness of the above heading is really not before this Court. For example, Appellees' claim that the Novembers had notice of the Nevada "compromise" because they "appeared" by an attorney. This again flies in the face of the rule that the Novembers' allegations to the contrary must be assumed true. [R. 257-259.]

Moreover, without directly challenging the Opening Brief, page 17, demonstrating that the Nevada court converted a motion to dismiss for mootness, of which the

*We make no charges against the Nevada court, as indeed we make no charges against the Court below. Our only point is that the Nevada judgment and orders were wrongfully procured.

stockholders had notice, to a 23(c) hearing, of which the stockholders had no notice, Appellees cite from their own evidence (in conflict with Appellants') to support their side of the issue. *But issue it is, and it has not yet been resolved.*

Nor are any of the Appellees' citations applicable. In *Mullane v. Central Hanover Bank & Trust Co.*, 339 U. S. 306, the Court held insufficient statutory constructive service under the New York Banking Law as applied to known beneficiaries.

Turner v. Alton Banking & Trust Co., 181 F. 2d 899, held that a "cognovit" note, i.e., a note containing a warrant for an attorney's appearance, complied with due process.

IV.

Neither the Delaware Action nor the Sale to Appellee Hughes of All Assets Rendered the Action Herein Moot.

Appellees have failed to challenge the significance of a single authority cited by Appellants in support of the above heading. (Appellants' Op. Br. p. 19, *et seq.*) Instead they cite cases which we submit are inapplicable; although Appellees would have the Court read through the whole of each case to find, or rather *not* to find, their point.

For example, none of the cases cited by Appellee RKO on page 21 of its Brief holds, as suggested by it, that a sale to an officer or director of a corporation extinguishes the fraud claims against him. On the contrary, one case cited, *Webster Eisenhohr, Inc. v. Kalodner*, 145 F. 2d 316, 325, directly suggests the exact opposite; and two

other cases, *May v. Midwest Refining Co.*, 121 F. 2d 431, and *Malcolm v. Cities Service Co.*, 2 F. R. D. 405, indirectly suggest the same contrary conclusion.

The *May* case, *supra*, held that the statutory remedy of a dissenting stockholder was not exclusive; that the stockholder may maintain an equity action. However, where there are no interveners or other interested stockholders, the action may be treated as *non-representative*, and the stockholder may have his individual damages. (On the other hand, counsel fees were held not so restricted, the award being in excess of \$40,000.00.)

The *Malcolm* case, *supra*, held that the sale by plaintiff of her stock to one of the defendants did not constitute a compromise and that (2 F. R. D. at p. 47): The cause of action, if there be one, remains unaffected by the sale of plaintiff's stock." The Court also held that other stockholders should be allowed to intervene to protect the action.

The cases cited by the other Appellees beginning on page 26 of their Brief fare even worse. None of them bears on the point at all. One deals with a classic example of mootness; another deals with a classic case of *res judicata*, and still others deal with situations where collusion is not an issue.

What Appellees have done here, and only in less degree throughout their Briefs, was condemned in *Lewis v. Manufacturers Casualty Insurance Co.*, 107 Fed. Supp. 465, 473-474, from which we quote but a single sentence: "This is legal fog."

V.

The Appeal From the Final Judgment Brings Up for Review Important Intermediate Matters.

Western Union v. United States & M. T. Co., 221 Fed. 545, 550, 551, 552 (C. C. A. 8, 1915);

Victor Talking Machine Co. v. George, 105 F. 2d 697, 699 (C. C. A. 3, 1939);

Skirvin v. Mesta, 141 F. 2d 668, 672 (C. C. A. 10, 1944).

In the *Western Union* case, *supra*, an appeal from an order affecting a petition in intervention in a foreclosure suit alleging fraudulent transfers by bondholders and stockholders of an insolvent corporation, the Court stated (221 Fed at p. 551):

“When a final order or decree is made in a proceeding in equity all the preceding interlocutory orders and decrees relative to the matters in controversy between the parties to the final order remain under the control and subject to the revision of the court, and upon an appeal from the final order or decree every interlocutory order affecting the rights of the parties regarding the matters in question between them is subject to review in the appellate court and may be heard and decided at the same time.”

What was said of some of the intermediate matters before the district court there is most appropriate here. Said the Eighth Circuit Court (221 Fed. at p. 550):

“Hence, laying aside the other alleged grounds of equitable relief set forth in the portions of the petition excised, which may be more wisely and satisfactorily considered after, at a hearing, the relevant facts have been definitely ascertained, the averments

of the cause of action invoked the undoubted power and duty of that court to hear and determine the issues tendered thereby on their merits, a power and duty which it might not lawfully renounce or avoid; for ‘the courts of the United States are bound to proceed to judgment, and to afford redress to suitors before them in every case to which their jurisdiction extends. *They cannot abdicate their authority or duty in any case in favor of another jurisdiction.*’”
(Emphasis added.)

Also at page 552:

“Moreover, there is a class of cases in which a party has the equitable right to intervene, and the right to review by appeal any order denying that right, and this case is of that class.”

Some of the intermediate matters which we ask this Court to review are:

1. Motion to intervene (involved in the *Western Union* case, *supra*);
2. The order quashing service on Mr. Hughes (no opposition here by this Appellee);
3. Motion to set aside default on Mr. Hughes’ motion to quash on grounds of fraud (no opposition here by this Appellee);
4. Motion for appointment of a Special Master.

Had these matters been disposed of favorably to Appellants, the Court below would have been in position to hear the evidence and may not have abdicated its jurisdiction (also involved in the *Western Union* case, *supra*).

Yet Appellees dismiss this important phase of the appeal by an unsupported general reference to a rule that such

omissions do not warrant reversal in the absence of prejudice or abuse of discretion.

We submit that the general principle thus invoked does not apply to situations where the trial court declines to *use* discretion; a point covered beginning on page 24 of our Opening Brief, and which the Appellees leave unchallenged.*

We take it that the Appellees would disagree with *Cuthill v. Ortman-Miller Machine Company*, 216 F. 2d 336, 338, 339 (C. A. 7, 1954), citing this Court's decision in *Pellegrino v. Nesbit*, 203 F. 2d 463 (1953).

In the *Cuthill* case, *supra*, the District Court had denied a stockholder's motion to intervene. On appeal the Seventh Circuit Court stated (p. 338):

"Rule 24(a) of the Federal Rules of Civil Procedure, 28 U. S. C. A. provides that upon timely application one shall be permitted to intervene (a) when the 'representation of the applicant's interest by existing parties' is inadequate and the applicant is or may be bound by a judgment in the action, or (b) when the applicant 'is so situated as to be adversely affected by' disposition of property in the custody or control of the court or an officer thereof. Comparing the mandatory provisions of the rule with the averments of appellant's petition, it is obvious that he has brought himself within the rule by charging explicitly that as a stockholder he had a substantial interest in the \$4,100 then in the custody of the court; that the corporation's interests, including appellant's, were not

*Appellees Castleman, *et al.*, by taking words out of context and misunderstanding our courtesy to the Court below, attempt to blame the District Court's inaction on us, but please see the full text [R. 44-55, 80-91, 135-172].

adequately represented in that the company and its counsel had permitted a fraudulent judgment to be entered; and that if corporate funds were improperly diverted in satisfaction of the allegedly fraudulent judgment, his interests would be adversely affected. In this situation the court could not properly do otherwise than permit him to present his case. Thus, in Pellegrino v. Nesbit, 9 Cir., 203 F. 2d 463, at page 465, the court said: 'Intervention should be allowed even after a final judgment where it is necessary to preserve some right which cannot otherwise be protected.' . . .

"The facts pleaded were sufficient to justify appellant's fears; they brought him within the doctrine enunciated by the Supreme Court in United States v. Throckmorton, 98 U. S. 61, at page 65, 25 L. Ed. 93, where the court said: 'Where the unsuccessful party has been prevented from exhibiting fully his case by fraud or deception practiced on him by his opponent as by keeping him away from court, a false promise of a compromise; or where the defendant never had knowledge of the suit, being kept in ignorance by the acts of the plaintiff; or where an attorney fraudulently or without authority assumes to represent a party and connives at his defeat; or where the attorney regularly employed corruptly sells out his client's interest to the other side,—these, and similar cases which show that there has never been a real contest in the trial or hearing of the case, are reasons for which a new suit may be sustained to set aside and annul the former judgment or decree, and open the case for a new and fair hearing.' Citing cases. See also U. S. v. Kusche, D. C. 56 F. Supp. 201, at page 216. Here appellant pleaded with particularity and great detail facts tending to show that there had been no adversary trial of the issue in the case; that this situation emanated from the

collusion of the original parties; that appellant's interests were adversely affected and that no adequate representation of his and the corporate interests had been supplied. Inasmuch as Rule 60(b) endows the court with power to vacate any fraudulent judgment, plaintiff was entitled to be heard upon his averments. Obviously the District Court has inherent power to investigate such averments of fraud. Hazel-Atlas Co. v. Hartford Empire Co., 322 U. S. 238, 64 S. Ct. 997, 88 L. Ed. 1250; Universal Oil Products Co. v. Root Refining Co., 328 U. S. 575, 66 S. Ct. 1176, 90 L. Ed. 1447.” (Emphasis added.)

VI.

Counsel Fees Can Be Assessed Against Appellee RKO.

Again Appellees do not challenge or even discuss Appellants' citations in their Opening Brief beginning at page 42. Their entire defense is predicated on what the Nevada state court did or did not do.

In the first place, what the Nevada court did or did not do is challenged here and as yet has not been resolved by trial.

In the second place, counsel was entitled to have his fees fixed by the court below, the Appellees' cases on this point being inapplicable.

In each of the cases cited by Appellee RKO on page 26 of its Brief, and by the Appellees Castelman, *et al.*, on page 38 of their Brief, while it was held that the trial court could in a single jurisdiction fix fees for out-of-state attorneys, *those attorneys made application therefor and submitted themselves to that single jurisdiction.*

In each such case objection was made to the court's power to award fees to out-of-state attorneys. In the

instant case, Reich made no application in Nevada. His application was to the Court below, where he had rendered the services which he alleges brought about the offer on the part of Hughes to purchase the assets of RKO.

The fact is that the Court below did not exercise its discretion to award or not to award fees. He denied relief by declining jurisdiction on the ground of the *res judicata* of the Nevada state court judgment—without trying the issues of fraud and collusion.

One last thing on this point: the Appellees, without mention of the legal consequences therefor, refer to a stipulation staying proceedings, except for the deposition of Mr. Hughes, pending the outcome of the security application. Obviously, the stipulation failed when the deposition was not given, when the action was dismissed the first time without the knowledge or consent of plaintiffs' attorney of record, and in any event in the face of the collusion charges.

VII.

Counsel Fees Can Be Assessed Against the Appellees Castelman and Feuerman.

These Appellees negative the above heading by claiming that the Court below "did not abuse his discretion," when our point is simply that the Court below did not *use* or *exercise* its discretion.

These Appellees also base their defense on an assumption that the purported discharge was for cause and that the Court below so held. There was of course no such holding; the Court refused to rule. In fact, the clear inference from the Court's refusal to rule or grant the motion for substitution is that Reich had the right to

proceed in the case. In any event counsel was entitled to a hearing on the issue of the purported discharge and whether it was for cause.

It is significant that there was no cause for discharge—only confirmation of the retainer—until counsel successfully moved to set aside the first dismissal. [R. 276-278.] Appellees having been thwarted in their sordid undertaking, they attack counsel.

As to these Appellees' point that their attorney of record, having been "discharged," could not proceed in the case, there is not one word by Appellees in contradiction of the Opening Brief, pages 40 and 41, citing authorities that counsel's procedure was eminently correct; and that, under the rules of the court below, until there has been a substitution the attorney of record has the exclusive right to appear.

Instead of meeting the issues directly, these Appellees again cite inapplicable cases.

In *Thomas v. Thomas*, 34 N. Y. S. 2d 320, a divorce case, it was held that an *opponent* by reason of statute could not serve a discharged attorney. In the instant case, the opponent, *i.e.*, the Appellee RKO, continued to serve the "discharged" attorney of record, as indeed it should have.

In *Mueseler's Estate*, 220 P. 2d 18, it was held that a written dismissal of attorneys and waiver of appeal by a *legatee* was effective to nullify a notice of appeal—where there was a finding below of *no fraud*.

In *Margaretten v. Horowitz*, 112 N. Y. S. 2d 24, the Court denied an application for counsel fees made four years after a settlement and the filing of a dismissal without costs. Moreover, no fraud was alleged.

Conclusion.

Appellee RKO presses us to state what we propose to litigate in the event of a reversal.

If the judgment is reversed we propose to prosecute the case and endeavor to obtain a judgment of \$38,000,-000.00. If, on the other hand, the court below, on application of the defendants, wants to treat the "sale" to Hughes as an offer of compromise and to submit same to the stockholders, we shall petition for a full and complete hearing suggested by Circuit Court Judge Biggs,* at which time—and for the first time—all of the stockholders, and not just plaintiffs, will have notice that what is proposed is not a dismissal of the action on the merits, but a settlement of the lawsuit. The court below then, for the first time, will be in a position to approve or disapprove the settlement.

The judgment should be reversed in accordance with the prayer in Appellants' Opening Brief.

Dated: June, 1955.

Respectfully submitted,

BERNARD REICH,

Attorney for Appellants.

KENNETH N. CHANTRY,

Of Counsel.

**Webster Eisenhohr, Inc. v. Kalodner*, 145 F. 2d 316, 325 (C. A. 3, 1944).

No. 14578

United States
Court of Appeals
for the Ninth Circuit

EDCLIFF INSTRUMENTS, a Corporation,
EDMUND W. PITZER and CLIFFORD
DILLON, Appellants,

vs.

MARLAN E. BOURNS, doing business as Bourns
Laboratories, Appellee.

Transcript of Record

In Two Volumes

VOLUME I.

(Pages 1 to 477, inclusive.)

Appeal from the United States District Court for the Southern
District of California, Central Division

FILED

MAR 10 1955

PAUL P. O'BRIEN,
CLERK

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INDEX

[Clerk's Note: When deemed likely to be of an important nature, errors or doubtful matters appearing in the original certified record are printed literally in italic; and, likewise, cancelled matter appearing in the original certified record is printed and cancelled herein accordingly. When possible, an omission from the text is indicated by printing in italic the two words between which the omission seems to occur.]

	PAGE
Affidavits filed January 15, 1954:	
Bossarte, Raymond E.	34
Comegys, Leonard	36
Dillon, Clifford	38, 39
Grant, Clyde V., Jr.	45
Kruzie, Marion J.	47
MacArthur, Frederick E., Jr.	48, 51
Pitzer, Edmund W.	56
Werner, John C.	57
Affidavits filed September 3, 1954:	
Coates, J. E.	76
Comegys, Leonard	94
Jason, Walter J.	95
Affidavits filed Nov. 19, 1954, in Support of Motion to Suspend Injunction Pending Determination of Appeal (USCA):	
Coates, J. E.	458
Comegys, Leonard	461
Jason, Walter J.	454
Toy, Anton, Jr.	462
Pitzer, Edmund W.	464
Amended Complaint (Portions)	3

Amended Counterclaims (Portions)	12
Answer (Portions)	6
Appeal:	
Application for Permission to File a Typed Brief Amicus Curiae by the United States of America in Support of Motion to Suspend Injunction Pending	466
Brief Amicus Curiae of the United States of America in Support of Motion to Suspend Injunction Pending Determination of....	469
Certificate of Clerk to Transcript of Record on	117
Notice of	115
Notice of Motion for an Order to Suspend Injunction Pending Determination of (USCA)	451
Order Denying Motion for Order to Suspend Injunction Pending (USCA)	472
Statement of Points Upon Which Appellants Intend to Rely on	473
Application for Permission to File Typed Brief Amicus Curiae by the United States of America in Support of Motion to Suspend Injunction Pending Appeal (USCA).....	466
Brief Amicus Curiae in Support of Motion to Suspend Injunction Pending Determination of Appeal	469
Certificate of Clerk to Transcript of Record..	117
Complaint, Amended (Portions)	3

iii.

Counterclaims, Amended (Portions)	12
Decision	70
Findings of Fact and Conclusions of Law.....	105
Judgment	112
Memorandum in Opposition to Motion for Par- tial Summary Judgment (Portions).....	59
Minutes of the Court:	
Feb. 15, 1954—Order Denying Motion for Partial Summary Judgment	60
Sept. 8, 1954—Findings and Judgment Pro- posed by Plaintiff Signed as Corrected. Ob- jections of Defendants Overruled.....	104
Names and Addresses of Attorneys	1
Notice of Appeal	115
Notice of Motion for an Order to Suspend In- junction Pending Determination of Appeal (USCA)	451
Notice of Motion for Partial Summary Judg- ment and for an Order of Direction as to Further Proceedings and Reasons and Au- thorities in Support Thereof	18
Notice Under 35 USC 282, Defendants' (Por- tions)	60
Objections of Defendants to Plaintiff's Pro- posed Findings of Fact, Conclusions of Law and Judgment	71
Opinion	62

Order Denying Motion for Order to Suspend Injunction Pending Appeal (USCA)	472
Reply to Counterclaims (Portions).....	16
Statement of Points Upon Which Appellants Intend to Rely (USCA)	473
Transcript of Hearing on Motion to Stay or Modify Injunction (Extract)	447
Transcript of Proceedings and Testimony....	118
Exhibits for Plaintiffs:	
1—Bourns Patent in Suit, No. 2,515,980... .	479
Admitted in Evidence	119
2—Bourns Patent in Suit, No. 2,515,981....	485
Admitted in Evidence	120
10A—Purchase Order dated 1/31/47, Bourns Laboratories	491
Admitted in Evidence	151
10B—Ex. A attached to Purchase Order....	492
Admitted in Evidence	151
31—Drawing of C-3 Instrument (Duplicate of page 69A of Pretrial Memorandum)	493
Admitted in Evidence	284
32—Drawing of Model C2 Instrument (Dup- licate of page 75A of Pretrial Mem- orandum)	494
Admitted in Evidence	284
33—Drawing of B-11 Linear Motion Poten- tiometer (Duplicate of page 37A of Pre- trial Memorandum)	495
Admitted in Evidence	285

Transcript of Proceedings—(Continued)

Exhibits for Plaintiffs—(Continued)

34—Drawing of B-12 Instrument (Duplicate of page 38A of Pretrial Memorandum)	496
Admitted in Evidence	286
41—Letter dated Sept. 25, 1950, Edward J. Goeppinger, Bourns Laboratories to Douglas Aircraft Co.	497
Admitted in Evidence	434

Exhibits for Defendants:

J—Drawing No. A-8002925, Single Potentio- meter	498-504
Admitted in Evidence	323
K—Drawing No. 7401533, Production Test Procedure Linear Potentiometer, Model 1249-1249A-1249B	505-513
Admitted in Evidence	341
L—Letter dated Jan. 11, 1951, S. Kleinhaus, Douglas Aircraft Co. to Bourns Labora- tories and enclosed letter from Air Force Cambridge Research Laboratories ..	515-523
Admitted in Evidence	344
P—File Wrapper of Marlan E. Bourns, Pa- tent No. 2,515,980 (Excerpts).....	524-529
Admitted in Evidence	367
Q—File Wrapper of Marlan E. Bourns, Pa- tent No. 2,515,981 (Excerpt)	530
Admitted in Evidence	368

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* Page numbers appearing at foot of page of original Transcript of Record.

In the United States District Court for the Southern District of California, Central Division

Civil Action No. 14764-Y.

MARLAN E. BOURNS, doing business under the fictitious firm name and style of Bourns Laboratories,

Plaintiff,

vs.

EDCLIFF INSTRUMENTS, EDMUND W. PITZER and CLIFFORD DILLON,

Defendants.

AMENDED COMPLAINT

Comes Now the plaintiff through its attorneys and for cause of action against the defendants alleges:

Count I.

1. That plaintiff Marlan E. Bourns is a citizen of the United States and a resident of the city of Riverside, County of Riverside and State of California.
2. That defendant Edcliff Instruments is a corporation organized and existing under and by virtue of the laws of the State of California, and having a principal place of business and a regular and established place of business at 850 South Fairoaks, city of Pasadena, County of Los Angeles and State of California.

3. That defendants Edmund W. Pitzer and Clifford Dillon are citizens of the United States, resi-

dents of Altadena, in the County of Los Angeles, State of California. [2]

4. That the acts of infringement complained of herein have taken place in said city of Pasadena, County of Los Angeles, State of California, within the Southern District of California and elsewhere throughout the United States.

5. That jurisdiction of this Court is founded upon the fact that this is an action arising under the Patent Laws of the United States and a related action for unfair competition joined therewith, jurisdiction of this Court lying under Title 28, U. S. Code, Section 1338.

6. That Letters Patent of the United States No. 2,515,980 were duly and legally issued to plaintiff on July 18, 1950, and since said date plaintiff has been and still is the owner of said Letters Patent.

7. That Letters Patent of the United States No. 2,515,981 were duly and legally issued to plaintiff on July 18, 1950, and since said date plaintiff has been and still is the owner of said Letters Patent.

8. That defendants and each of them jointly and severally have, during the past six (6) years, deliberately and willfully infringed said Letters Patents Nos. 2,515,980 and 2,515,981 by manufacturing, using and selling potentiometers embodying the inventions claimed in said patents and will continue to so infringe to the irreparable damage of plaintiff unless restrained by this Court.

9. That plaintiff has given defendants written notice of their infringement.

10. That defendant Edmund W. Pitzer deliberately and willfully conspired with defendant Clifford Dillon to cause the organization of defendant Edcliff Instruments for the purpose of infringing said Letters Patents Nos. 2,515,980 and 2,515,981.

11. That pursuant to said conspiracy, defendants have manufactured and sold and offered for sale to plaintiff's customers [3] potentiometers which infringe upon said Letters Patent and each of them.

* * * * *

Wherefore, plaintiff prays:

1. For a preliminary and permanent injunction restraining defendants and each of them from directly or indirectly infringing said Letters Patents of the United States Nos. 2,515,980 and 2,515,981.

* * * * *

3. For an accounting and recovery of damages for said infringement of said Letters Patents of the United States Nos. 2,515,980 and 2,515,981.

4. For an accounting and recovery of damages on account of the disclosure and use by defendants of plaintiff's confidential and secret fabrication techniques, trade secrets and know-how. [5]

5. That the damages as found aforesaid for infringement of said Letters Patents of the United States Nos. 2,515,980 and 2,515,981 be trebled.

6. For an assessment and awarding of costs and

reasonable attorneys' fees against defendants and for such other and further relief as to this Court may seem just and proper.

/s/ LYON & LYON,
/s/ By CHARLES G. LYON,
Attorneys for Plaintiff

[6]

[Endorsed]: Filed January 23, 1953.

[Title of District Court and Cause.]

ANSWER

The Defendants, Edmund W. Pitzer, Clifford Dillon and Edcliff Instruments, a corporation, and each of them, for answer to the Amended Complaint on file herein, admit, deny and allege as follows:

Count I.

1. Answering paragraph 1, allege that they are without knowledge or information sufficient to form a belief as to the allegations therein contained, and placing their denials on that ground, deny each and every such allegation.

2. Answering paragraph 2, admit that defendant Edcliff [S] Instruments is a corporation organized and existing under and by virtue of the laws of the State of California: deny that said corporation has a principal place of business or a regular and established place of business at 850 South Fair Oaks in the City of Pasadena, County of Los Angeles, State of California, and allege that said corporation has its principal place of business at 383 North

Foothill Boulevard in the City of Pasadena, County of Los Angeles, State of California.

3. Answering paragraph 3, admit the allegations therein contained.

4. Answering paragraph 4, deny each and every allegation therein contained excepting only admit and allege that defendants Dillon and Pitzer, as copartners under the firm name and style, Edcliff Instruments, did, from December, 1950, until May, 1952, and defendant Edcliff Instruments, a corporation, has, from May, 1952, to the date hereof, manufactured and sold potentiometers in the City of Pasadena, County of Los Angeles, State of California, and within the Southern District of California and elsewhere throughout the United States.

5. Answering paragraph 5, admit that in so far as Count I of said Amended Complaint relates to the issue of alleged patent infringement it arises under the patent laws of the United States; deny that there is stated in Count II of said Amended Complaint a claim for unfair competition related to said issue of alleged patent infringement or to any alleged cause of action in any way related to said issue of alleged infringement of United States Letters Patents No. 2,515,980 or No. 2,515,981 and therefore allege that Title 28, United States Code, Section 1338, does not confer upon this court jurisdiction to hear matters alleged by plaintiff in Count II of said Amended Complaint to comprise acts of unfair competition.

6. Answering paragraph 6, deny each and every allegation therein contained excepting only admit

that Letters Patent of the [9] United States No. 2,515,980 were issued to plaintiff on July 18, 1950; specifically deny that said Letters Patent were duly or legally issued to plaintiff in that said Letters Patent are invalid and void as more particularly hereinafter alleged in paragraphs 17 and 18 hereof.

7. Answering paragraph 7, deny each and every allegation therein contained excepting only admit that Letters Patent of the United States No. 2,515,-981 were issued to plaintiff on July 18, 1950; specifically deny that said Letters Patent were duly or legally issued to plaintiff in that said Letters Patent are invalid and void as more particularly hereinafter alleged in paragraphs 12, 13, 14 and 15 hereof.

8. Answering paragraph 8, deny generally and specifically each and every allegation therein contained.

9. Answering paragraph 9, deny that plaintiff has given defendants, or any of them, any notice, written or otherwise, of their alleged infringement excepting only for the notice contained in the Complaint and Amended Complaint herein.

10. Answering paragraph 10, deny each and every allegation therein contained excepting only admit that defendants Edmund W. Pitzer and Clifford Dillon caused the organization and incorporation of defendant Edcliff Instruments.

11. Answering paragraph 11, deny each and every allegation therein contained excepting only admit that defendants have manufactured and sold and offered for sale potentiometers to persons or

firms which have also purchased potentiometers from plaintiff. [10]

* * * * *

Second Separate Defence

13. United States Patent No. 2,515,981 is invalid and void in that the subject matter thereof is not an invention and the claim thereof fails to recite an invention as required by Sections 100 and 101 of Title 35 of the United States Code, and in this connection no inventive act was performed by the named inventor in said patent in developing the alleged invention, and said named inventor did nothing involving anything more than the exercise of mere mechanical skill in view of the state of the art existing in this country at the time of, and long prior to, said alleged invention.

Third Separate Defense

14. United States Patent No. 2,515,981 is invalid and void in that prior to any supposed invention or discovery by plaintiff, the thing or things as alleged to be patented by said United States Patent No. 2,515,981 had been patented or described in certain printed publications or Letters Patent before the alleged invention [11] or discovery thereof by plaintiff.

Fourth Separate Defense

15. The single claim of United States Patent No. 2,515,981 cannot be given an interpretation or construction which will include any structure or device made, used or sold by these defendants, and if the claim be so interpreted and construed as to include

within its purview any structures or devices of these defendants', then said claim is anticipated and invalid in view of the state of the art existing in this country at the time of, and long prior to, the alleged invention defined in said claim.

Fifth Separate Defense

16. The single claim of United States Patent No. 2,515,981 is ambiguous and therefore invalid and said patent is void unless the terms of said claim are construed and defined as in the specification and the history of the prosecution of the application for said patent, and if so construed and defined said claim will be legally susceptible only of such narrow interpretation, meaning and scope that none of the devices actually or intended to be manufactured, used or sold by these defendants can justly or lawfully be held to constitute infringement of said claim.

* * * * *

Tenth Separate Defense

21. All of the potentiometers manufactured or sold by defendants Edmund W. Pitzer or Clifford Dillon, or either of them, have been sold and delivered by them to the United States Government, or to contractors or subcontractors for the United States Government and either delivered to the United States Government or used by said contractors or subcontractors for, and with the authorization or consent of, the United States Government, and said defendants have not used any potentiometers.

22. All of the potentiometers manufactured or sold by defendant Edcliff Instruments, with the exception of 5 Model A potentiometers, 2 Model F potentiometers, and 1 Model D potentiometer, have been sold and delivered by it to the United States Government, or to contractors or subcontractors for the United States Government and either delivered to the United States Government or used by said contractors or subcontractors for, and with the authorization or consent of, the United States Government, and said defendant has not used any potentiometers.

23. Under and pursuant to the provisions of Section 1498 of Title 28 of the United States Code, plaintiff's sole remedy for any alleged infringement relating to the said sales of potentiometers to the United States Government, its contractors or subcontractors as hereinabove alleged, is against the United States Government in the Court of Claims, and this Court is without jurisdiction over the subject matter of said alleged acts of infringement.

* * * * * [14]

JAMES B. CHRISTIE,
ROBERT L. PARKER, JR.
GIBSON, DUNN & CRUTCHER,
SAMUEL O. PRUITT, JR.,
F. DANIEL FROST III
GLENN WARNER,

/s/ By GLENN WARNER,

Attorneys for Defendants Edcliff Instruments, Edmund W. Pitzer and Clifford Dillon. [16]

[Endorsed]: Filed June 3, 1953.

[Title of District Court and Cause.]

AMENDED COUNTERCLAIMS

* * * * *

Counterclaim IV.

Defendants Edmund W. Pitzer, Clifford Dillon and Edcliff Instruments, a corporation, and each of them, for a fourth counterclaim against plaintiff, Marlan E. Bourns, and against defendants Bourns Laboratories Instruments Sales Corporation and Bourns Position Instruments, Inc., and each of them, allege:

1. This counterclaim is filed, and the jurisdiction of this Court is invoked, under the provisions of the Patent Laws of the United States, and under the laws providing for declaratory judgments, including Section 2201 of Title 28 of the United States Code.
2. On or about November 17, 1952, plaintiff herein, through his attorney, directed letters to the Bendix Aviation Corporation and to Douglas Aircraft Co. Inc., both customers of defendant Edcliff Instruments, alleging that said Bendix Aviation Corporation and said Douglas Aircraft Co. Inc., by use of "linear motion potentiometers" purchased from defendant Edcliff Instruments, would infringe said United States Patent No. 2,515,981, whereby plaintiff attempted to induce these customers to discontinue the purchase of linear motion potentiometers from said defendant.
3. That the present action for infringement was instituted by plaintiff against these defendants by

filling a complaint in this action on or about November 21, 1952, and that on or about January 23, [27] 1953, plaintiff filed the Amended Complaint herein in which he alleged the infringement by these defendants in the manufacture, use and sale of potentiometers, of United States Patents No. 2,515,981 and No. 2,515,980, and each of them, alleged by plaintiff to be his property; that in answering the Amended Complaint on file herein, defendants allege as their tenth affirmative defense that all of the potentiometers made, used or sold by them, excepting only eight (8) such potentiometers, have been sold to the United States Government, its contractors or subcontractors; that under the provisions of Section 1498 of Title 28 of the United States Code, plaintiff's sole remedy with respect to the alleged infringement by the potentiometers thus sold to the United States Government, its contractors or subcontractors, is against the United States in the Court of Claims.

4. That these defendants are entitled to a decision by this Court on the issue of infringement of United States Patents No. 2,515,981 and No. 2,515,980 by the products of these defendants, and on the issue of validity of said patents, so that the business of defendant Edcliff Instruments of selling potentiometers will not be interfered with by reason of plaintiff's suit or threats to sue the United States Government or customers who purchase potentiometers from said defendant.

5. That there is an actual controversy now existing between the parties hereto with respect to

which these defendants need and request a declaration of their rights by this Court in that, among other things:

(a) These defendants contend and maintain, and the plaintiff Marlan E. Bourns and defendants Bourns Position Instruments, Inc. and Bourns Laboratories Instruments Sales Corporation deny, that they have not infringed and do not infringe United States Patents No. 2,515,981 or No. 2,515,980, or either of them, by their manufacture, use or sale of potentiometers.

(b) These defendants contend and maintain, and plaintiff [28] Marlan E. Bourns and defendants Bourns Position Instruments, Inc. and Bourns Laboratories Instruments Sales Corporation deny, that United States Patent No. 2,515,981 is invalid and void for the reason that it does not disclose a patentable invention in view of the state of the art at and prior to the time that United States Patent Application Serial No. 9,697 was filed by plaintiff and with relation to which said United States Patent No. 2,515,981 is a division.

(c) These defendants contend and maintain, and plaintiff Marlan E. Bourns and defendants Bourns Position Instruments, Inc. and Bourns Laboratories Instruments Sales Corporation deny, that United States Patent No. 2,515,981 is invalid and void in that prior to any supposed invention or discovery by plaintiff, the thing or things as alleged to be patented by said United States Patent No. 2,515,981 have been patented or described in certain printed

publications or Letters Patent before the alleged invention or discovery thereof by plaintiff.

(d) These defendants contend and maintain, and plaintiff Marlan E. Bourns and defendants Bourns Position Instruments, Inc. and Bourns Laboratories Instruments Sales Corporation deny, that United States Patents No. 2,515,981 and No. 2,515,980, and each of them, are invalid and void under the provisions of Section 102(b) of Title 35 of the United States Code, because the alleged invention or inventions purported to be patented therein were, for more than one year prior to any application for United States Patent for said alleged inventions, in public use and sale in the United States by said Marlan E. Bourns and others.

(e) These defendants contend and maintain, and plaintiff Marlan E. Bourns and defendants Bourns Position Instruments, Inc. and Bourns Laboratories Instruments Sales Corporation deny, that the respective claims of United States Patents No. 2,515,981 and No. 2,515,980, and each of them, cannot be given an interpretation or a construction which will include any structure or device made or sold by these [29] defendants, and that is said claims be so interpreted and construed as to include within their purview any of said structures or devices, then said claims are anticipated and invalid in view of the state of the art existing in this country at the time of, and long prior to, the alleged inventions defined in said claims.

(f) These defendants contend and maintain, and plaintiff Marlan E. Bourns and defendants Bourns

Position Instruments, Inc. and Bourns Laboratories Instruments Sales Corporation deny, that the claim of United States Patent No. 2,515,981 and the claims of United States Patent No. 2,515,980 must be so narrowly construed as to be incapable of being validly applied to any potentiometers manufactured, used or sold by the defendants. [30]

* * * * *

JAMES B. CHRISTIE,
ROBERT L. PARKER, JR.
GIBSON, DUNN & CRUTCHER,
SAMUEL O. PRUITT, JR.,
F. DANIEL FROST III,

/s/ By GLENN WARNER by Bill Clark
Attorneys for Defendants Edcliff Instruments, Edmund W. Pitzer and Clifford Dillon. [34]

[Endorsed]: Filed November 2, 1953.

[Title of District Court and Cause.]

REPLY OF PLAINTIFF TO COUNTER-
CLAIM IV.

* * * * * [36]

Counterclaim IV.

1. Answering paragraph 1 of said Counterclaim, plaintiff and defendants Bourns Laboratories Instruments Sales Corporation and Bourns Position Instruments, Inc. admit that defendants invoke the jurisdiction of this Court, as alleged therein.
2. Answering paragraph 2, plaintiff and defend-

ants Bourns Laboratories Instruments Sales Corporation and Bourns Position Instruments, Inc. admit the allegations contained therein.

3. Answering paragraph 3, plaintiff and defendants Bourns Laboratories Instruments Sales Corporation and Bourns Position Instruments, Inc. specifically deny the allegations of the alleged tenth affirmative defense of defendants to the effect that all of the potentiometers made, used or sold by them, excepting only eight, have been sold to the United States Government, its contractors or subcontractors. Further answering said paragraph, plaintiff and defendants Bourns Laboratories Instruments Sales Corporation and Bourns Position Instruments, Inc. admit the remaining allegations contained therein [40]

4. Answering paragraph 4, plaintiff and defendants Bourns Laboratories Instruments Sales Corporation and Bourns Position Instruments, Inc. admit that defendants, and allege that plaintiff as well, are entitled to a decision by this Court on the issue of infringement of United States Letters Patent No. 2,515,981 and No. 2,515,980 by the products of defendants, and on the issue of validity of said patents. Further answering said paragraph, plaintiff and defendants Bourns Laboratories Instruments Sales Corporation and Bourns Position Instruments, Inc. deny each and every other allegation contained therein.

5. Answering paragraph 5, plaintiff and defendants Bourns Laboratories Instruments Sales Corporation and Bourns Position Instruments, Inc. ad-

mit that an actual controversy exists between the parties hereto with respect to the issues of validity and infringement of patents No. 2,515,981 and No. 2,515,980. * * * * [41]

/s/ LYON & LYON,

/s/ By LOUIS E. LYON,

Attorneys for Plaintiff and for Defendants on Counterclaims Bourns Laboratories Instruments Sales Corporation and Bourns Position Instruments, Inc. [42]

[Endorsed]: Filed December 14, 1953.

[Title of District Court and Cause.]

NOTICE OF MOTION FOR A PARTIAL SUMMARY JUDGMENT AND FOR AN ORDER OF DIRECTION AS TO FURTHER PROCEEDINGS AND REASONS AND POINTS AND AUTHORITIES IN SUPPORT THEREOF

To the Plaintiff, Marlan E. Bourns, and to Lyon & Lyon and Lewis E. Lyon, Esq., his Attorneys of Record:

Please take notice that on Monday, the 25th day of January, 1954, at the hour of 10:00 o'clock a.m. or as soon thereafter as counsel may be heard, in the courtroom of Judge Leon R. Yankwich, in the United States Post Office and Court House Building, Spring and Temple streets, Los Angeles, California, the defendants Edcliff Instruments, a cor-

poration, Edmund W. Pitzer and Clifford Dillon, and each of them, will move the above entitled Court as follows:

(a) For a summary judgment (interlocutory in character) in favor of said defendants, and each of them, for the following parts of the claims asserted by the plaintiff, Marlan E. Bourns, in his Amended Complaint herein, as to each of which parts there is no genuine issue of fact material to the disposition thereof and as to which the sole remedy available to the plaintiff is by way of an action for damages against the United States Government in the Court of Claims pursuant to the provisions of Section 1498 of Title 28 of the United States Code:

(1) That part of plaintiff's claims which seek an accounting and damages for the alleged infringement by the defendants, and each of them, of Letters Patent of the United States No. 2515980 and No. 2515981 to the extent that said alleged infringements arose out of the manufacture of potentiometers for the United States Government and with the authorization and consent of the United States Government;

(2) That part of plaintiff's claims which seek a preliminary and permanent injunction restraining defendants, and each of them, from directly or indirectly infringing Letters Patent of the United States No. 2515980 and No. 2515981 to the extent that said alleged infringement may [45] arise out of the manufacture of potentiometers for the United States Government and with the authorization and consent of the United States Government.

(b) For an order, with respect to the hereinabove specified parts of the claims asserted by the plaintiff in his Amended Complaint herein, specifying (i) that the facts material to the disposition thereof are without substantial controversy, and (ii) that plaintiff is barred by the provisions of Section 1498 of Title 28 of the United States Code from asserting any of said claims against these defendants, or any of them, and directing that all further proceedings herein shall be conducted accordingly.

This motion will be made and based upon this Notice of Motion, upon Rule 56 of the Federal Rules of Civil Procedure, upon the affidavits of Clifford Dillon, Edmund W. Pitzer, Raymond E. Bossarte, Marion J. Kruzie, Clyde V. Grant, Jr., Frederick E. MacArthur, Jr., Ed Deardorff, John C. Werner, and Leonard Comegys filed concurrently herewith, upon the Statement of Points and Authorities attached hereto, upon the Amended Complaint, and upon all the files and records in the above entitled action.

Dated at Los Angeles, California, this 15th day of January, 1954.

JAMES B. CHRISTIE

ROBERT L. PARKER, JR.

GIBSON, DUNN & CRUTCHER

SAMUEL O. PRUITT, JR.

F. DANIEL FROST III

GLENN WARNER

/s/ By GLENN WARNER

Attorneys for defendants, Edcliff Instruments, Edmund W. Pitzer and Clifford Dillon. [46]

Points and Authorities in Support of Defendants' Motion for Summary Judgment

Preliminary Statement

Plaintiff's Amended Complaint consists of two counts, the first of which purports to state a claim against defendants for infringement of United States Letters Patent No. 2515980 and No. 2515981. The second count purports to state a claim for relief arising out of the alleged appropriation by the defendants of unspecified "confidential and secret fabrication techniques, trade secrets and know-how" which were allegedly owned by the plaintiff. This Motion is addressed only to the first count and to the relief requested by the plaintiff for the acts complained of therein.

The affidavits filed concurrently herewith in support of the motion herein show (i) that neither of defendants Clifford Dillon nor Edmund W. Pitzer has manufactured or sold potentiometers except in his capacity as a partner in Edcliff Instruments, a co-partnership, or as an officer and director of its successor corporation, Edcliff Instruments, one of the defendants herein; (ii) that all potentiometers manufactured or sold by Edcliff Instruments, a co-partnership, were manufactured for, and sold to, the United States Government or to contractors or subcontractors for the United States Government under contracts issued by the United States Government, and that Edcliff Instruments, a co-partnership, acted as a contractor or subcontractor for the United States Government in said manufacture

and sale of potentiometers; and (iii) that, except for the sale of fourteen potentiometers to civilians for civilian use, all potentiometers manufactured or sold by defendant Edcliff Instruments, a corporation, were manufactured for, and sold to, the United States Government or to contractors or subcontractors for the United States Government under contracts issued by the United States Government and that Edcliff Instruments, a corporation, acted as a contractor or subcontractor for the United States Government in said manufacture and sale of potentiometers. It is, [47] therefore, abundantly clear that all potentiometers manufactured by the defendants herein were manufactured for or used by the United States Government, save for fourteen potentiometers sold by defendant Edcliff Instruments, a corporation, to civilian purchasers for civilian use, which sales are more particularly described in the affidavit of Clifford Dillon filed concurrently herewith.

For these reasons, the defendants respectfully submit that Section 1498 of Title 28 of the United States Code limits the issues relative to patent infringement for determination by this Court under the Amended Complaint to (i) whether or not the potentiometers sold by defendant Edcliff Instruments, a corporation, to civilian purchasers for civilian use infringe upon plaintiff's patent and, if so, the extent plaintiff has been damaged by said sales and (ii) whether or not defendants should be enjoined from making sales of potentiometers to civilians for civilian use. If plaintiff would seek a

remedy arising out of any other sales of potentiometers by defendants, or any of them, that statute compels him to seek that remedy against the United States Government in the Court of Claims and not here.

1. Section 1498 of Title 28 of the United States Code provides that a patentee's sole remedy for an alleged infringement of patents arising out of the manufacture or use of a device by a Government subcontractor for the United States Government shall be by an action against the United States Government in the Court of Claims.

The language of Section 1498 of Title 28 of the United States Code is clear and unambiguous. That section provides, in part, as follows:

"Sec. 1498. Patent Cases

"Whenever an invention described in and covered by a patent of the United States is used or manufactured by or for the United States without license of the owner thereof or lawful right to use or manufacture the same, the owner's remedy shall be by action against the United States in the Court of Claims for the recovery of his reasonable and entire compensation for such use and manufacture.

"For the purposes of this section, the use or manufacture of an invention described in and covered by a patent of the United States by a contractor, a subcontractor, or any person, firm or corporation for the Government and with the authorization or consent of the Government, shall be construed as use or manufacture for the United States."

The courts have repeatedly held that this statute takes away the right of a patentee to sue a Government contractor or subcontractor for infringement if the alleged infringement resulted from the manufacture of a device for the United States Government, and the patentee's sole remedy is against the United States in the Court of Claims.

Richmond Screw Anchor Company, Inc., vs.
United States (1928), 275 U.S. 331, 72 L.Ed.
303

Pollen vs. Ford Instrument Co. (2nd Cir. 1940),
108 F.2d 762

Bereslavsky vs. Esso Standard Oil Co. (4th
Cir. 1949), 175 F.2d 148

Hazeltine Corporation vs. General Electric Co.
(D.C. Md. 1937), 19 F. Supp. 898 [49]

In its original form, Section 1498 applied only to prime contractors who dealt directly with the Federal Government. Even then, however, its purpose was clear—to assure to the Federal Government a free and unimpeded flow of essential war goods by prohibiting patent infringement suits against Government contractors. The United States Supreme Court adopted this interpretation of the statute in forceful and unequivocal language when it observed:

“* * * The intention and purpose of Congress in the Act of 1918 was to stimulate contractors to furnish what was needed for the war, without fear of becoming liable themselves for infringements to inventors or the owners or assignees of patents. The letter of the Assistant Secretary of the Navy,

upon which the Act of 1918 was passed, leaves no doubt that this was the occasion for it. To accomplish this governmental purpose, Congress exercised the power to take away the right of the owner of the patent to recover from the contractor for infringements * * *”

Richmond Screw Anchor Company, Inc. vs.
United States, 275 U.S. 331, 72 L.Ed. 303,
308

In 1942 the statute was cast in its present form so as to include subcontractors within its purview. The amending language appears in the second paragraph of Section 1498 which provides that the statute shall apply to subcontractors who manufacture a device for the Government and with the authorization or consent of the Government. It is particularly significant to observe that this language was not designed to narrow the scope of the statute but, quite to the contrary, to broaden its application by extending its benefits to subcontractors, as well as prime contractors, of the Federal Government. That this was the purpose of the amendment is well expressed [50] by the court in Bereslavsky vs. Esso Standard Oil Co., *supra*, (4th Cir. 1949), 175 F.2d 148, which quoted with approval from an opinion of the Judge Advocate General as follows:

“ ‘A review of the history of this section, both before and during its pendency before the Congress, discloses that its sole and only purpose was to broaden the scope of the act of June 25, 1910, as

amended, so to *to* remove any further doubt that subcontractors and other suppliers of goods and materials to the government were included within the terms of that act to the same extent as prime contractors to the Government were; a construction previously admitted to be true by all parties concerned. Nothing in the wording of the section itself, or in its legislative history, contemplated any limitation on the scope of the act of June 25, 1910, as amended, or indicated the attachment of any conditions where were not existent before its passage * * *” (Emphasis added)

Bereslavsky vs. Esso Standard Oil Co., 175 F.2d 148, 150-151

Similarly, the court in Drexler vs. Koza (D.C. Pa. 1950), 88 F. Supp. 298, in referring to the purpose of the amendment, observed:

“For while the quoted provision undoubtedly applies to 28 U.S.C.A. § 1498, since the latter is but a codification of the Act of 1910 as amended, it is clear that it was intended to broaden, rather than to narrow, the scope of that statute. Bereslavsky vs. Standard Oil Co. of New Jersey, D. C. 82 [51] F. Supp. 939, 944, and legislative history referred to therein. In other words, Section 6 of the Royalty Adjustment Act brought within the scope of what is now 28 U.S.C.A. § 1498 the manufacture and use of infringing devices by contractors, subcontractors or other persons for the Government, even though

such devices were not actually used by the Government itself, but only if such manufacture or use was with the authorization or consent of the Government. Obviously use by the Government itself implies consent and express consent need not be shown." (Emphasis added)

Drexler vs. Koza, 88 F. Supp. 298, 300

2. All potentiometers manufactured by defendants herein with the exception of fourteen potentiometers manufactured for and delivered to civilians for civilian use have been manufactured with the authorization and consent of the United States Government.

The key to a determination of the applicability of Section 1498 is whether or not the allegedly infringing device was manufactured with the authorization and consent of the United States Government. If so, then no claim of patent infringement may be asserted in a Federal District Court against the manufacturer. That authorization and consent may appear in a variety of ways. In Bereslavsky vs. Esso Standard Oil Co., *supra*, (4th Cir. 1949), 175 F.2d 148, plaintiff appealed from a judgment in favor of the defendant in a patent infringement suit. The plaintiff owned a patent on a motor fuel containing a certain compound. The defendant manufactured and delivered such a motor fuel to the Defense Supplies Corp., which was wholly owned by the Reconstruction Finance Corporation. The defendant contended in a motion for summary

judgment that the sales [52] were within the protection of Section 1498. In holding that the processing was with the consent of the Government, the court quoted with approval from an opinion of the Judge Advocate General of the Army:

"‘Authorization or consent’ on the part of the Government may be given in many ways other than by letter or other direct form of communication.
* * * the specifications and the contract may be silent with respect to the use of patented inventions. In such event, if the invention for which claim is made is incorporated in the articles delivered to the United States under the terms of the contract, the acceptance of such articles as complying with the terms of the contract, constitutes ‘consent’ by the Government sufficient to bring the articles within the provisions of the Act of June 25, 1910, as amended, supra, and forms the basis for the transfer of jurisdiction over any claim for compensation therefor from the District Court to the Court of Claims, * * *

* * * * *

“* * * * there is no language in the statute which limits its application to cases where the government contracts expressly for what will infringe, but, on the contrary, it applies in any case where the invention of the patent is ‘used or manufactured by or for the United States.’ To limit the application of the statute to cases where officers of the government intentionally contract for patent infringement

would in very large measure defeat its purpose."

(Emphasis added)

Bereslavsky vs. Esso Standard Oil Co., 175 F.2d 148, 150, 151 [53]

Similarly, in Drexler vs. Koza, *supra*, (D. C. Pa. 1950), 88 F. Supp. 298, the defendant alleged that certain of the infringing tools were manufactured for and used by the United States, and that the plaintiff's sole remedy was in the Court of Claims. In holding that this contention was correct, and that consent of the Government had been shown by its acceptance and use of the alleged infringing device, the court said:

"The plaintiff urges that the defendants fail to establish that the Government authorized or consented to the supplying of the infringing tools to fill its orders. *Wood vs. Atlantic Gulf & Pacific Co.*, D.C. 296 F. 718, is relied upon by the plaintiff. That case, however, is distinguishable. There the defendant-contractor, in performing a dredging contract for the Government, used an appliance which infringed the patent there in suit. The defendant-contractor had the option of using this or other means for carrying out the contract. The patented appliance was not embodied in any product delivered to the Government, nor was it manufactured for the Government. The court, therefore, held that the defendant-contractor's use of it under the circumstances was not use for the Government. Here the charge of infringement is against the very tools which were delivered to the Government for its use. * * *

“* * * Obviously use by the Government itself implies consent and express consent need not be shown.” (Emphasis added)

Drexler vs. Koza, 88 F. Supp. 298, 299, 300 [54]

A court, then, must look to determine what indicia of consent appear from the facts of each case from which it can conclude that the device in issue was manufactured “with the authorization and consent” of the United States Government. The affidavits filed concurrently herewith reveal that the United States Government has manifested its consent to the manufacture by defendants of potentiometers which plaintiff claims infringe upon his patent by (i) issuing its own purchase orders for said potentiometers directly to defendant Edcliff Instruments or its predecessor company (affidavit of Clifford Dillon); (ii) inserting an “authorization and consent” clause in prime contracts under which the potentiometers are manufactured (affidavits of Frederick E. MacArthur, Jr. and Leonard Comegys); (iii) accepting delivery of potentiometers manufactured by defendants (affidavits of Clifford Dillon, John C. Werner and Ed Deardorff) and (iv) authorizing payment for potentiometers manufactured by defendants.

3. The applicability of Section 1498 of Title 28 of the United States Code is properly raised by a Motion for Summary Judgment.

Section 1498, where applicable, is a bar to proceedings in the Federal District Courts for patent infringement. Although it does not afford a basis

for a motion to dismiss for lack of jurisdiction (see *Tinnerman Products vs. Adel Precision Products Corp.* [D.C. W.Va. 1945], 62 F. Supp. 348), it presents an issue which must be determined by the trial court in advance of the trial and which therefore is appropriately considered in a motion for summary judgment.

Bereslavsky vs. Standard Oil Co. of New Jersey (D.C.Md. 1949), 82 F. Supp. 939; aff'd 175 F.2d 148

Broome vs. Hardie-Tynes Mfg. Co. (5th Cir. 1937), 92 F.2d 886 [55]

Hazeltine Corporation vs. General Electric Co., *supra*, (D.C.Md. 1937), 19 F. Supp. 898

Although the defendant Edcliff Instruments and its predecessor company have manufactured several models of potentiometers, they have sold only fourteen potentiometers to civilian purchasers for civilian use. Of these fourteen potentiometers, eight were defendant's Model A, one its Model B, two its Model D, and three its Model F. Defendants contend, therefore, that only those four models may be considered with reference to plaintiff's claim of infringement and to his demand for an injunction and that plaintiff can recover damages, if at all, only for his damages arising out of the sale of those fourteen potentiometers.

If defendants' Motion herein is granted, complex issues of infringement and damages will be eliminated and counsel will be spared from expending needless hours in preparation of those issues which this Court has no jurisdiction to hear. On the other

hand, if defendants' Motion is denied, then both Court and counsel will be compelled to try those issues, after which the Court must decide the issue of jurisdiction which is raised by this Motion.

Under these circumstances, the procedure afforded by Rule 56(b) of the Federal Rules of Civil Procedure providing for an interlocutory summary judgment is singularly appropriate. In this connection the District Court in Bereslavsky vs. Standard Oil Co. of New Jersey, *supra*, (D.C. Md. 1949), 82 F. Supp. 939, aff'd 175 F.2d 148, stated:

"The object of defendant's motion for summary judgment is to eliminate from the present proceeding the question (1) whether the '100 octane gasoline' was an infringing product, and (2) the matter of damages respecting all sales of defendant's motor fuel to the Government. That it is proper to [56] raise and determine such questions by a motion for summary judgment is well established. See Sperry Gyroscope Co. vs. Arma Engineering Co., 271 U.S. 232, 46 S.Ct. 505, 70 L.Ed. 922; Broome vs. Hardie-Tynes Mfg. Co., 5 Cir., 92 F.2d 886; Tinnerman Products vs. Adel Precision Products, D.C., 62 F. Supp. 348; Hazeltine Corporation vs. General Electric Co., D.C., 19 F. Supp. 898 * * *"

Bereslavsky vs. Standard Oil Co. of New Jersey, 82 F. Supp. 939, 941-942

See also:

Lorentz vs. RKO Radio Pictures (9th Cir. 1946), 155 F.2d 84; cert. den. 329 U.S. 727, 91 L.Ed. 629

Velsicol Corp. v. Hyman (D. C. Colo. 1951),
103 F. Supp. 363

6 Moore, Federal Practice (2d Ed. 1948), p.
2305

Rule 56 (a), (d), Fed. R. Civ. Proc.

CONCLUSION

Defendants respectfully submit that the issues of patent infringement relating to the manufacture and sale of potentiometers for the United States Government may not be determined by this Court nor may this Court consider the propriety of enjoining defendants, or any of them, from so manufacturing or selling potentiometers in the future. For these reasons, defendants' Motion for a Summary Judgment should be granted and this Court should issue its order directing that further proceedings shall be limited to the issues presented [57] by the manufacture and sale of potentiometers by defendants to civilians for civilian use.

JAMES B. CHRISTIE
ROBERT L. PARKER, JR.
GIBSON, DUNN & CRUTCHER
SAMUEL O. PRUITT, JR.
F. DANIEL FROST III
GLENN WARNER

/s/ By GLENN WARNER

Attorneys for defendants Edcliff Instruments, Edmund W. Pitzer and Clifford Dillon. [58]

[Endorsed]: Filed January 15, 1954.

[Title of District Court and Cause.]

AFFIDAVIT OF RAYMOND E. BOSSARTE

State of California,
County of Los Angeles—ss.

Raymond E. Bossarte, being duly sworn, deposes and says:

I am employed by Douglas Aircraft Company, Inc., as the supervisor of the Material Control Records Group of the Materiel Department, Santa Monica Division. In that capacity, I have in my custody certain of the Company's records relating to standard purchased parts, and I supervise the making of such records as part of the regular and continuous business of the Douglas Aircraft Company, Inc.

On 19 August 1953, I examined the records in my custody, [59] and from that examination I determined that Douglas Aircraft Company, Inc., Santa Monica Division, had ordered and purchased a total of 230 linear motion potentiometers from Edcliff Instruments on the following purchase orders issued under the following United States Government contracts:

United States Government	Purchase Order No.	Shop Order No.	Quantity & Model
Prime Contract No. W-33-038-AC-10413	1A-383776	5580	2 No. 2409235 Edcliff (D-1) (proto)
DA-30-069-ORD-36	1A-393218-1	3080	132 No. 8002925 (Edcliff D-1)
W-30-069-ORD-3182	1A-142874-F	6019-27	75 No. 8002105 (Edcliff G-1)

United States Government Prime Contract No.	Purchase Order No.	Shop Order No.	Quantity & Model No. Received
W-30-069-ORD-3182	2A-621618	6019-8	4 No. 554563 (Edcliff F-1)
W-30-069-ORD-3182	2A-149905-F	6019-8	3 No. 554563 (Edcliff F-1)
DA-30-069-ORD-36	2A-701082	3080	5 No. 8002925 (Edcliff D-1)
W-30-069-ORD-3182	2A-713645	6019-8	1 No. 554563 (Edcliff D-1)
W-30-ORD-069-3182	3A-197033-F	6019-8	4 No. 554563 (Edcliff D-1)
W-30-069-ORD-3182	3A-208203-K	6019-8	4 F-4 Dual Linear

The records in my custody show further that said 230 linear motion potentiometers were delivered to the Manufacturing Department of Douglas Aircraft Company, Inc., Santa Monica Division to be incorporated in devices manufactured for the United States Government.

/s/ RAYMOND E. BOSSARTE

Subscribed and Sworn to before me this 4th day of September, 1953.

[Seal] R. H. VAN ESSELSTYN,
 Notary Public in and for said
 County and State. [60]

[Endorsed]: Filed January 15, 1954.

[Title of District Court and Cause.]

AFFIDAVIT OF LEONARD COMEGYS

State of California,
County of Los Angeles—ss.

Leonard Comegys, being first duly sworn, deposes and says:

I am employed as Divisional Attorney by Bendix Aviation Corporation, Pacific Division, and in the course of such employment I am familiar with and have access to the terms and conditions of contracts between Bendix Aviation Corporation, Pacific Division, and contractors and sub-contractors for the United States Government.

I have read the affidavit of John C. Werner relating to purchases of Bendix Aviation Corporation, Pacific Division, from Edcliff Instruments of linear motion potentiometers under and pursuant [61] to United States Government Contracts No. DA30-069-ORD-746 and No. DA30-069-ORD-125. As of 18 December, 1953, I determined that each of those contracts contains in Clause 29 of General Provisions authorization and consent provisions as follows:

I. Contract DA30-069-ORD-746

29. "Authorization and Consent—The Government hereby gives its authorization and consent (without prejudice to its rights of indemnification, if such rights are provided for in this contract) for all use and manufacture, in the performance

of this contract or any part hereof or any amendment hereto or any subcontract hereunder (including any lower-tier subcontract) of any patented invention (i) embodied in the structure or composition of any article the delivery of which is accepted by the Government under this contract, or (ii) utilized in the machinery, tools or methods the use of which necessarily results from compliance by the Contractor or the using subcontractor with (a) specifications or written provisions now or hereafter forming a part of this contract, or (b) specific written instructions given by the Contracting Officer directing the manner of performance.”

II. Contract DA-30-069-ORD-125

29. “Authorization and Consent—The Government hereby gives its authorization and consent (without prejudice to its rights of indemnification, if such rights are provided for in this contract) for all use and manufacture, in the performance of this contract or any part hereof or any amendment hereto or any subcontract hereunder (including any lower-tier subcontract), of any patented invention (i) embodied in the structure or composition of any article the delivery of which is accepted by the Government under this contract, or (ii) utilized in the machinery, tools or methods the use of which necessarily results from compliance by the Contractor [62] or the using subcontractor with (a) specifications or written provisions now or hereafter forming a part of this contract, or (b) specific

written instructions given by the Contracting Officer directing the manner of performance."

Further affiant saith not.

/s/ LEONARD COMEGYS

Subscribed and Sworn to before me this 22nd day of December, 1953.

[Seal] /s/ ELENORE E. RICHARDSON
 Notary Public in and for said
 County and State. [63]

[Endorsed]: Filed January 15, 1954.

[Title of District Court and Cause.]

AFFIDAVIT OF CLIFFORD DILLON

State of California,
County of Los Angeles—ss. [64]

Clifford Dillon, being first duly sworn, deposes and says:

That he is one of the defendants in the above entitled action; that he is now the President and Treasurer of defendant Edcliff Instruments, a corporation, and that he was formerly a partner in Edcliff Instruments, a co-partnership, the predecessor company to Edcliff Instruments, a corporation; that he has never, acting as an individual for his own behalf and separate and apart from his

position as a partner in Edcliff Instruments, a co-partnership, or as an officer and director of defendant Edcliff Instruments, a corporation, manufactured or sold any potentiometers to a purchaser for his own account.

Further affiant saith not.

/s/ CLIFFORD DILLON

Subscribed and Sworn to before me this 15th day of January, 1954.

[Seal] /s/ PEARL C. GANZELL

Notary Public in and for said
County and State. [65]

[Endorsed]: Filed January 15, 1954.

[Title of District Court and Cause.]

AFFIDAVIT OF CLIFFORD DILLON

State of California,
County of Los Angeles—ss.

Clifford Dillon, being first duly sworn, deposes and says:

1. He was formerly the Secretary, and is now the President and Treasurer of Edcliff Instruments, a corporation, one of the defendants named in the above entitled action; that in the usual and customary discharge of his duties as such officer of the defendant company he has in his possession and

under his control the files of said company and the files of its predecessor company, Edcliff Instruments, a co-partnership, relating to the manufacture and sale of potentiometers by said companies, and each of them; that, among other things, said files consist of all purchase orders for potentiometers received by the defendant Edcliff Instruments or by its predecessor, Edcliff Instruments, a co-partnership, and all shipping receipts and invoices issued by defendant Edcliff Instruments or by its predecessor, Edcliff Instruments, a co-partnership, for potentiometers manufactured and sold by said companies or either of them;

2. As a part of his said duties and in the usual and customary course of business he has become and now is familiar with the contents of said files and with the circumstances relating to each sale of potentiometers by the defendant Edcliff Instruments or by its predecessor, Edcliff Instruments, a co-partnership;

3. Said files show that the defendant Edcliff Instruments and its predecessor, Edcliff Instruments, a co-partnership, have sold, as of January 1, 1954, a total number of 4,989 potentiometers; 71 of said potentiometers were manufactured for the United States Government, were delivered directly to the United States Government, and were paid for by the United States Government and attached hereto and designated "Exhibit A" is a list of said potentiometers; 4,904 of said potentiometers were manufactured for the United States Government and

with the authorization and consent of the United States Government and were sold and delivered to contractors or subcontractors for the United [67] States Government pursuant to the provisions of a United States Government contract or contracts and, attached hereto and designated Exhibit "B", is a list of said potentiometers; 14 of said potentiometers were manufactured by defendant Edcliff Instruments for, and sold to, civilian purchasers for civilian use and attached hereto and designed Exhibit "C" is a list of said potentiometers;

4. All potentiometers sold by Edcliff Instruments, a co-partnership, and, except for the sales of potentiometers set forth in Exhibit "C" attached hereto, all potentiometers sold by defendant Edcliff Instruments have been sold and delivered either to the United States Government or to contractors or subcontractors for the United States Government pursuant to the provisions of a United States Government contract or contracts.

Further your affiant saith not.

/s/ CLIFFORD DILLON

Subscribed and sworn to before me this 15th day of January, 1954.

[Seal] /s/ PEARL C. GANZELL,
Notary Public in and for the County of Los Angeles, State of California. [68]

EXHIBIT A

Schedule compiled from the records and files of
 Defendant Edcliff Instruments showing poten-
 tiometers sold by Defendants to the United
 Government.

Gov. Agency Purchasing Agency "A"	Potentiometer Model Purchased	Quantity Purchased
	Model A	1
	Model B	1
	Model D	1
	Model F	1
Agency "B"	Model C	2
	Model D	1
Agency "C"	Model A	6
	Model C	8
	Model F	4
Agency "D"	Model C	1
	Model F	4
Agency "E"	Model E	6
	Model F	6
Agency "F"	Model C	2
Agency "G"	Model C	10
Agency "H"	Model C	14
Agency "I"	Model C	3
Total.....		71

EXHIBIT B

Schedule compiled from the records and files of Defendant Edcliff Instruments showing potentiometers sold by Defendant Edcliff Instruments to purchasers who were contractors or subcontractors for the United States Government.

Company	Potentiometer Model Purchased	Number Purchased
I.	Model D	138
	Model E	6
	Model F	18
	Model G	75
	Prototype	7
	Total.....	244
II.	Model D	4,100
	Model F	348
	Prototype	6
	Total.....	4,454
III.	Model F	1
	Total.....	1
IV.	Model B	4
	Model F	2
	Model C	6
	Total.....	12
V.	Model D	2
	Model M	3
	Total.....	5
VI.	Model H	2
	Total.....	2
VII.	Model A	2
	Total.....	2

Exhibit B—(Continued)

Company	Potentiometer Model Purchased	Number Purchased
VIII.	Model B	18
	Total.....	18
IX.	Model C	12
	Total.....	12
X.	Model A	3
	Model B	32
	Prototype	8
	Total.....	43
XI	Model C	2
	Total.....	2
XII.	Model F	1
	Total.....	1
XIII.	Model L	98
	Total.....	98
XIV.	Model F	1
	Total.....	1
XV.	Model A	2
	Model E	1
	Total.....	3
XVI.	Prototype	5
	Total.....	5
XVII.	Model A	1
	Total.....	1
	Grand Total....	4,904

EXHIBIT C

Schedule compiled from the records and files of Defendant Edcliff Instruments showing potentiometers sold by Defendant Edcliff Instruments to civilian purchasers for civilian use.

Purchaser	Potentiometer Model Pur.	Date Pur.	Quan. Pur.
Mellon Institute of Ind. Research	Model A Model F	9/16/52 9/16/52	1 1
Minnesota Mining & Manuf. Co.	Model A	1/ 9/53 4/30/53 8/19/53	1 1 1
Rehrig Manuf. Co.	Model A	9/ 9/52	2
Goodwin & McCall Company	Model D Model A	11/19/53 11/19/53	1 1
Hydro-Aire, Inc.	Model D	4/ 8/53	1
Paxton Engineering Co.	Model F	4/ 2/53 4/20/53	1 1
AiResearch Manuf. Co.	Model A Model B	6/ 9/53 7/30/53	1 1
		Total.....	14

[Endorsed: Filed Jan. 15, 1954.]

[Title of District Court and Cause.]

AFFIDAVIT OF CLYDE V. GRANT, JR.

State of California,
County of Los Angeles—ss.

Clyde V. Grant, Jr., being duly sworn, deposes and says:

I am employed by Douglas Aircraft Company, Inc., as General Supervisor, Cost Accounting, Santa

Monica Division. In that capacity, I have in my custody the Santa Monica Division's records relating to costs, and to reimbursement under Government contracts, and I supervise the making of such records as part of the regular and continuous business of the company.

On 7 August 1953, I examined the records in my custody and [73] from that examination I determined that Douglas Aircraft Company, Inc. has been reimbursed for purchases of 236 linear motion potentiometers from Edcliff Instruments in accordance with the following schedule:

Douglas Purchase	Reimbursed by	Reimbursed under U.S. Govt.
Order No.	Reimbursed by	Prime Contract No.
OM-1A-66841	Bell Tel. Lab.	W-30-069-ORD-3182 ¹
1A-383776	U. S. Government	W-33-038-ac-10413
1A-393218-1	Bell Tel. Lab.	DA-30-069-ORD-36 ²
1A-142874-F	Bell Tel. Lab.	W-30-069-ORD-3182
2A-621618	Bell Tel. Lab.	W-30-069-ORD-3182
2A-149905-F	Bell. Tel. Lab.	W-30-069-ORD-3182
2A-701082	Bell Tel. Lab.	DA-30-069-ORD-36
2A-713645	Bell. Tel. Lab.	W-30-069-ORD-3182
3A-197033-F	Bell. Tel. Lab.	W-30-069-ORD-3182
3A-208203-K	Bell. Tel. Lab.	W-30-069-ORD-3182

Douglas Aircraft Company, Inc. has not yet been reimbursed for two (2) Model F-4 dual linear motion potentiometers purchased from Edcliff Instruments by Douglas purchase order 3A-258059-F under United States Government prime contract number

¹ Bell Telephone Laboratories is a prime contractor for the United States Government under contract W-30-069-ORD-3182.

² Western Electric Company, Inc., is a prime contractor for the United States Government under contract DA-30-069-ORD-36.

W-30-069-ORD-3182. The voucher for payment for said Model F-4 potentiometers was submitted to the Bell Telephone Laboratories on July 31, 1953, and will be paid in the regular course of business.

/s/ CLYDE V. GRANT, JR.

Subscribed and sworn to before me this 4th day of September, 1953.

[Seal] /s/ GWENDOLYN M. LAUER [74]
Notary Public in and for said County and State.

[Endorsed]: Filed Jan. 15, 1954.

[Title of District Court and Cause.]

AFFIDAVIT OF MARION J. KRUZIC
State of California,
County of Los Angeles—ss.

Marion J. Kruzic, being duly sworn, deposes and says:

I am employed by Douglas Aircraft Company, Inc., as General Supervisor, Outside Manufacturing Followup, Santa Monica Division. In that capacity, I have in my custody certain of the company's records relating to equipment purchases.

On 28 August 1953, I examined the records in my possession, and from that examination, I determined that the Douglas Aircraft Company, Inc., Santa Monica Division, purchased six (6) [75] Model E-1

Dual Linear Motion Potentiometers from Edcliff Instruments on or about 30 April 1951. The instruments were purchased on Douglas purchase order OM-1A-66841, which order was issued under United States Government prime contract W-30-069-ORD-3182.

The records in my custody show further that the above noted potentiometers were assigned to Douglas shop order number 6019-8, and were delivered to the Manufacturing Department of Douglas Aircraft Co., Inc., Santa Monica Division, to be incorporated in devices manufactured for the United States Government.

/s/ MARION J. KRUZIC

Subscribed and sworn to before me this 4th day of September, 1953.

[Seal] /s/ R. H. VAN ESSELSTYN [76]
Notary Public in and for said County and State.

[Endorsed]: Filed Jan. 15, 1954.

[Title of District Court and Cause.]

AFFIDAVIT OF FREDERICK
E. MacARTHUR, JR.

State of California,
County of Los Angeles—ss. [77]

Frederick E. MacArthur, Jr., being first duly sworn, deposes and says: I am employed as an attorney in the Legal Division of Douglas Aircraft

Company, Inc., and in the course of such employment I am familiar with, and have access to, the terms and conditions of contracts between the Douglas Aircraft Company, Inc., and United States Government.

I have read the affidavit of Ed Deardorff relating to purchases by Bendix Aviation Corporation, Pacific Division, from Edcliff Instruments of linear motion potentiometers under and pursuant to United States Government Contract Nos. NOa(s) 51-252 and NOa(s) 51-1061. As of 23 December 1953, I determined that each of those contracts contains authorization and consent provisions as follows:

I. Contract NOa(s) 51-252

"Authorization and consent — The Government hereby gives its authorization and consent (without prejudice to its rights of indemnification, if such rights are provided for in this contract) for all use and manufacture, in the performance of this contract or any part hereof or any amendment hereto or any subcontract hereunder (including any lower-tier subcontract), of any patented invention (i) embodied in the structure or composition of any article the delivery of which is accepted by the Government under this contract, or (ii) utilized in the machinery, tools or methods the use of which necessarily results from compliance by the Contractor or the using subcontractor with (a) specifications or written provisions now or hereafter forming a part of this contract, or (b) specific written instructions

given by the Contracting Officer directing the manner of performance."

II. Contract NOa(s) 51-1061

"Authorization and consent — The Government hereby gives its authorization and consent (without prejudice to its rights [78] of indemnification, if such rights are provided for in this contract) for all use and manufacture, in the performance of this contract or any part hereof or any amendment hereto or any subcontract hereunder (including any lower-tier subcontract), of any patented invention (i) embodied in the structure or composition of any article the delivery of which is accepted by the Government under this contract, or (ii) utilized in the machinery, tools or methods the use of which necessarily results from compliance by the Contractor or the using subcontractor with (a) specifications or written provisions now or hereafter forming a part of this contract, or (b) specific written instructions given by the Contracting Officer directing the manner of performance."

Further affiant saith not.

/s/ FREDERICK E. MacARTHUR, JR.

Subscribed and sworn to before me this 6th day of January, 1954.

[Seal] /s/ GWENDOLYN M. LAUER [79]
Notary Public in and for said County and State.

[Endorsed]: Filed Jan. 15, 1954.

[Title of District Court and Cause.]

AFFIDAVIT OF FREDERICK
E. MacARTHUR, JR.

State of California,
County of Los Angeles—ss.

Frederick E. MacArthur, Jr. being first duly sworn, deposes and says: I am employed as an attorney in the Patent Department of Douglas Aircraft Company, Inc., and in the course of such employment I am familiar with, and have access to, the terms and conditions of contracts between the Douglas Aircraft Company, Inc., and United States Government.

I have read the affidavits of Clyde V. Grant, Jr., Marion J. Kruzic, and Raymond E. Bossarte relating to purchases [80] of Douglas Aircraft Company, Inc., from Edcliff Instruments of 236 linear motion potentiometers under and pursuant to United States Government contracts number W-30-069-ORD-3182, DA-30-069-ORD-36 and W-33-038-ac-10413. As of 31 August 1953, I determined that each of those contracts contains authorization and consent provisions as follows:

I. Contract W-30-069-ORD-3182

“Article XLIII. Authorization and Consent—The Government hereby gives its authorization and consent (without prejudice to its rights of indemnification, if such rights are provided for in this contract) for all use and manufacture, in the perform-

ance of this contract or any part hereof or any amendment hereto or any subcontract hereunder (including any lower-tier subcontract), of any patented invention (i) embodied in the structure or composition of any article the delivery of which is accepted by the Government under this contract, or (ii) utilized in the machinery, tools or methods the use of which results from compliance by the Contractor or the using sub-contractor with (a) specifications or written provisions now or hereafter forming a part of this contract, or (b) specific written instructions given by the Contracting Officer directing the manner of performance."

II. Contract DA-30-069-ORD-36

"Article 30. Authorization and Consent—The authorization and consent by the Government is hereby given (without prejudice to its right of indemnification, if such rights are provided for in the purchase order) for all use and manufacture in the performance of this purchase order or any part hereof or any amendment hereto or any subcontract hereunder of any patented invention (i) embodied in the structure or composition of any Article the delivery of which is accepted by the Government under this purchase order, or [81] (ii) utilized in the machinery, tools or methods the use of which results from compliance by you or any using sub-contractor with (a) specifications or written provisions now or hereafter forming a part of this purchase order or (b) specific written instructions

given by the Contracting Officer directing the manner of performance."

III. Contract W-33-038-ac-10413

"(a) For the purpose set forth in Section 6 of the Royalty Adjustment Act of 1942 (Public No. 768, 77th Cong., 35 USC 94), insofar as said Section 6 refers to the Act of June 25, 1910, as amended (35 USC 68), and for no other purpose whatsoever, the Government shall, without prejudice to its rights of indemnification, if any, be deemed to have given its authorization and consent to the use and manufacture, in the performance of this contract or of any subcontract hereunder, (1) of any patented invention embodied in the structure or composition of any article the delivery of which is accepted by the Government under this contract, and (2) of any patented invention utilized in machinery, tools or methods the use of which (i) is not known to the Contractor or the using subcontractor to be within the *prima facie* scope of any unexpired adversely-held domestic patent or (ii) necessarily results from compliance by the Contractor or such subcontractor with specifications or written provisions now or hereafter forming a part of this contract or with specific written instructions given by the Contracting Officer for the purpose of this paragraph."

On 11 May 1953, Mr. J. E. Coates, Patent Counsel for Douglas Aircraft Company, Inc. addressed a letter to the Chief of Ordnance, U.S. Army, requesting authorization to purchase linear motion poten-

tiometers from Edcliff Instruments. A letter in reply dated 8 June 1953 and signed by W. E. Thibodeau, Chief [82] Patent Attorney for the Army Bureau of Ordnance was received by Douglas Aircraft Company, Inc., and is attached hereto and designated Exhibit A.

Further affiant sayeth not.

/s/ FREDERICK E. MacARTHUR, JR.

Subscribed and sworn to before me this 4th day of September, 1953.

[Seal] /s/ CLARA J. KESLER,
Notary Public in and for said
County and State. [83]

EXHIBIT A

ABGomory/ecn/52748

ORDGL-PT

8 June 1953

Douglas Aircraft Co., Inc., Santa Monica, Calif.

Attn: Mr. J. E. Coates, Patent Counsel.

Gentlemen:

This is in reply to your letter G-AN-L-33, dated May 11, 1953, on the subject of Contracts Nos.:

W-30-069-Ord-3182

DA-30-069-Ord-36

DA-30-069-Ord-125

DA-30-069-Ord-746

The first two contracts (Research and Development) contain Authorization and Consent Clauses,

without the qualification "necessarily", giving authorization and consent" * * * for all use in the performance of (the) contract or any part (thereof) or any amendment (thereto) or any subcontract (thereunder) * * * of any patented invention * * * (ii) utilized in * * * methods the use of which results from compliance by the Contractor or the using subcontractor with (a) specifications or written provisions * * *".

The last two contracts (Supply) contain Research and Development articles which provide that research and development or design incident to or arising from the performance of these contracts shall be governed by the provisions of the basic contract W-30-069-Ord-3182. Therefore, these contracts, with respect to experimental activities thereunder, are dependent from the basic contract and its extension (DA-30-069-Ord-36).

For the foregoing reasons, this office is of the opinion that use "for various experimental purposes directly connected with [84] subject contracts such as specification testing, testing of sub-assemblies received from sub-contractors, and other operations of like nature" is authorized under the existing terms of the contracts.

For the reason that your letter G-L-230 dated April 21, 1953 to Western Electric Co. recites "used for various experimental purposes" without the limitation "directly connected with subject contracts", it is emphasized that this opinion is limited to such various experimental purposes as are connected with subject contracts. Any generalized

experimentation must be governed by the general law on the subject.

For the chief of ordnance.

Sincerely yours,

/s/ W. E. THIBODEAU,
Assistant. [85]

[Endorsed] : Filed Jan. 15, 1954.

[Title of District Court and Cause.]

AFFIDAVIT OF EDMUND W. PITZER

State of California,
County of Los Angeles—ss. [86]

Edmund W. Pitzer, being first duly sworn, deposes and says:

That he is one of the defendants in the above entitled action; that he is now the Vice President and Secretary of defendant Edcliff Instruments, a corporation, and that he was formerly a partner in Edcliff Instruments, a co-partnership, the predecessor company to Edcliff Instruments, a corporation; that he has never, acting as an individual for his own behalf and separate and apart from his position as a partner in Edcliff Instruments, a co-partnership, or as an officer and director of defendant Edcliff Instruments, a corporation, manufactured or sold any potentiometers to a purchaser for his own account.

Further affiant saith not.

/s/ EDMUND W. PITZER

Subscribed and sworn to before me this 15th day of January, 1954.

[Seal] /s/ PEARL C. GANZELL,
Notary Public in and for said
County and State. [87]

[Endorsed]: Filed Jan. 15, 1954.

[Title of District Court and Cause.]

AFFIDAVIT OF JOHN C. WERNER

State of California,
County of Los Angeles—ss.

John C. Werner, being duly sworn, deposes and says:

I am employed by Bendix Aviation Corporation as the Production Control Supervisor of its Pacific Division Plant No. 1 at North Hollywood, California. In that capacity I have in my custody certain records of that plant and I supervise the making of such records as part of the regular and continuous business of Bendix Aviation Corporation, Pacific Division.

On October 14, 1953, I examined the records in my custody and from that examination I determined that Plant No. 1 of Bendix [88] Aviation Corporation, Pacific Division, had purchased 4,100 linear motion potentiometers from Edcliff Instruments on the following purchase orders issued under the following United States Government contracts:

United States Government Prime Contract No.
DA-30-069-ORD-746

Purchase Order No.: A 50340.

Quantity and Model No.

Purchased: 3600 No. 8002925 (Edcliff D-1)
Received to 10/14/53: 977.

United States Government Prime Contract No.
DA-30-069-ORD-125

Purchase Order No.: A 23977.

Quantity and Model No.

Purchased: 500 No. 8002925 (Edcliff D-1)
Received to 10/14/53: 500.

Said records show further that all of said linear motion potentiometers were purchased for incorporation into devices to be manufactured for the United States Government and that all potentiometers received by Bendix Aviation Corporation, Pacific Division, have been either incorporated into devices so manufactured, and delivered to Douglas Aircraft Company, Inc. for ultimate delivery to the United States Government, or held in stock for incorporation into said devices to be so delivered to Douglas Aircraft Company, Inc.

/s/ JOHN C. WERNER

Subscribed and sworn to before me this 22nd day of December, 1953.

[Seal] /s/ ELENORE E. RICHARDSON,
Notary Public in and for said
County and State. [89]

[Endorsed]: Filed Jan. 15, 1954.

[Title of District Court and Cause.]

MEMORANDUM IN OPPOSITION TO MOTION FOR PARTIAL SUMMARY JUDGMENT

* * * * *

* * * Obviously, at some time during the proceedings it will be necessary to ascertain which devices of defendants were sold to the Government, its contractors or sub-contractors. Plaintiff takes no issue to the statement of law with respect to this type of device, its relief lies in the Court of claims. Plaintiff, however, contends that the relief sought by the instant motion is premature and essentially pointless. Obviously, those devices which fall within the scope of Section 1498 of Title 28 cannot be made the subject of injunctive relief or damages in this action. * * * [91]

* * * * *

* * * Although plaintiff agrees that those devices which were sold to the Government, its contractors and sub-contractors, must be excluded from damages or injunctive relief, it is felt that an effort on the part of defendants to obtain some form of order regarding these devices at this time is premature. [92]

* * * * *

LYON & LYON,

/s/ By R. DOUGLAS LYON,

Attorneys for Plaintiff and for Defendants on Counterclaims. [93]

[Endorsed]: Filed February 10, 1954.

[Title of District Court and Cause.]

MINUTES OF THE COURT

Date: Feb. 15, 1954, at Los Angeles, Calif.

Present: Hon. Leon R. Yankwich, District Judge;
Deputy Clerk: John A. Childress; Reporter: Marie
Zellner.

Counsel for Plaintiff: R. Douglas Lyon.

Counsel for Defendants: Glenn Warner.

Proceedings: For hearing motion of defendants,
filed Jan. 15, 1954, for partial summary judgment
as to certain claims and for an order of direction
as to further proceedings.

Filed affidavit of G. Warner in support of motion.

Lodged, by defendants, proposed form of order
and summary judgment.

Attorney Warner argues motion.

It Is Ordered that said motion of defendants for
summary judgment, etc., is denied without prej-
udice to raising points at time of trial.

EDMUND L. SMITH,

Clerk

/s/ By JOHN A. CHILDRESS,

Deputy Clerk

[95]

[Title of District Court and Cause.]

DEFENDANTS' NOTICE UNDER 35 U.S.C. 282

* * * * *

3. Within the present knowledge of defendants,
the following United States Letters Patents will be

relied upon in anticipation of United States Letters Patent 2,515,981 in suit and will be relied upon as showing the state of the art. [97]

H. A. Kiep: Patent No. 954,518; issue date: April 12, 1910.

M. W. Newton: Patent No. 1,004,460; issue date: September 26, 1911.

C. W. Mountford: Patent No. 1,539,266; issue date: May 26, 1925.

W. J. Thayer: Patent No. 1,660,979; issue date: February 28, 1928.

B. H. Campbell: Patent No. 2,125,219; issue date: July 26, 1938.

H. W. Rubinstein: Patent No. 2,178,241; issue date: October 31, 1939.

H. W. Rubinstein: Patent No. 2,242,327; issue date: May 20, 1941.

C. O. Nelson: Patent No. 2,273,760; issue date: February 17, 1942.

W. E. Schauer: Patent No. 2,280,305; issue date: April 21, 1942.

H. W. Batcheller: Patent No. 2,306,152; issue date: December 22, 1942.

J. M. Aufiero: Patent No. 2,420,807; issue date: May 20, 1947.

4. Within the present knowledge of defendants, the following listed publications will be relied upon in anticipation of United States Letters Patent 2,515,981 in suit and as showing the state of the art.

(a) Catalogue of the Braun Corporation for the year 1940 at page 936.

(b) "Electrical Measurements, Laws", McGraw-

Hill Book Company, Inc., New York, 1917, pages 151, 152.

(c) "Electronics Dictionary", Cooke and Markus, McGraw-Hill Book Company, Inc., New York, 1945, pages 6,327,352.

Dated: April 23, 1954.

JAMES B. CHRISTIE,
ROBERT L. PARKER, JR.
GIBSON, DUNN & CRUTCHER,
SAMUEL O. PRUITT, JR.
F. DANIEL FROST III,
GLENN WARNER,
/s/ By SAMUEL O. PRUITT, JR.,
Attorneys for Defendants and
Counterclaimants

[98]

[Endorsed]: Filed April 23, 1954.

[Title of District Court and Cause.]

OPINION

Appearances: For the Plaintiff: Lyon & Lyon, By Lewis E. Lyon, Esq. and R. Douglas Lyon, Esq., 811 West Seventh Street, Los Angeles 17, California. For the Defendants: Gibson, Dunn & Crutcher, By Samuel O. Pruitt, Jr., & Glenn Warner, Esqs., 634 South Spring Street, Los Angeles 14, California. [100]

Yankwich, Chief Judge:

Action for infringement of patent No. 2515981, issued to M. E. Bourne on July 18, 1950. The de-

fendants have denied infringement and have attacked the validity of the patent. No claim of invention by them is asserted by the defendants. Their challenge of the validity of the patent is based on claimed anticipation.

I.

The Validity of the Patent in Suit

The issues, as narrowed by the proff, concern the validity of the single claim of the patent, which reads:

“An adjustable resistor comprising a base having a groove therein, a shaft reciprocably mounted in the said groove, a post mounted transversely to said shaft and slideable back and forth in said groove, a resilient contact place secured to said post, a cover mounted to said base over said groove, an elongate resistance contact plate secured to said post, a cover mounted to said base over said groove, and elongate resistance element and an electrically conductive elongate strip disposed parallel and mounted to the inner face of said cover and engaging the ends of said resilient plate, a pair of terminals passing through and secured in said cover, the inner ends of said terminals being electrically attached to said element ends, and a [101] third terminal passing through and secured to said cover and electrically attached to said elongate strip.”

The invention is denominated an “adjustable resistor”, and is known in industry as a “potentiometer.”

The inventor has illustrated his invention in two

embodiments. (See illustrations) The validity of the claim is challenged. The challenge lacks merit.

A potentiometer is an electro-mechanical device containing a resistance element that is contacted by a movable slider. (See, F. E. Dole, Potentiometers in "Components Handbook," ed. by John F. Blackburn, 1949) The patented device is a linear type.

The problem which confronted the art is stated in the specifications in this manner:

"This invention relates to adjustable resistors, and more particularly to adjustable resistors which must respond precisely and without ambiguity to the means which actuates the movable slider. This is a division of application Serial No. 9,697 filed February 20, 1948."

The problem was met by the inventor by providing (a) an adjustable resistor of simple structure that would respond with precision to an adjustable post or slider, (b) that would achieve contact in the same position at all times, and (c) that could be assembled easily and when assembled, carry out its complete function without disconnecting wires or disconnecting elements necessarily associated with the structure in its completed form. This is invention over the prior art, whether [102] it be considered in the light of the standards established by the 1952 revision and codification of the patent law or by the law as declared in decisions prior to the revision. (35 U.S.C.A., Secs. 101-103; Pointer vs. Six-Wheel Corp., 1949, 9 Cir. 177 F(2) 153, 159-161; Watson vs. Heil, 1951, 9 Cir., 192 F(2) 982, 985; Jeoffroy vs. Graham, 1953, 5 Cir., 206

F(2) 772, 776-777; Application of O'Keefe, 1953, C.A.P.A., 202 F(2) 767, 771-772; and see, Kwikset Locks vs. Hillgren, 1954, 9 Cir., 210 F(2) 483, 485-486) The result achieved is admittedly superior, and, as one of the defendants' own experts testified, the patented device is easier and more economical to construct. The defendants have pressed upon us a group of patents which they claim anticipate the patent in suit. Two of these, 2,252,327 (Rubinstein) and 2,306,152 (Batcheller), were the references considered by the patent office. The patents referred to by the defendants are, in the order of issuance:

- No. 954,518, Keip, April 12, 1910.
- 1,004,460, Newton, Sept. 26, 1911.
- 1,539,266, Mountford, Dec. 29, 1922.
- 2,125,219, Campbell, July 26, 1938.
- 2,178,241, Rubinstein, Oct. 31, 1939.
- 2,242,327, Rubinstein, May 20, 1941.
- 2,273,760, Nelson, Feb. 17, 1942.
- 2,280,305, Schauer, April 21, 1942.
- 2,306,152, Batcheller, Dec. 22, 1942.
- 2,420,807, Aufiero, May 20, 1947. [103]

Of these, only the two Rubinstein patents and the Mountford patent relate to the subject matter of the patent in suit,—that is, "variable resistance". The others relate to a variety of electronic devices ranging from therapeutic lamps (Newton) to volume control of hearing aids (Schauer).

The essential elements of the present invention, as claimed, are not found in this prior art, either in the same or in other combinations. The defend-

ants seem to find the greatest similarity to the patent in suit in Rubinstein patent No. 2,242,327. But even as to it, it is not asserted that the single claim in the present patent is anticipated by the claims or specifications of the Rubinstein patent. All that is claimed is that one of the illustrations of the device in the Rubinstein patent is similar to one of the embodiments of the patent in suit. Drawings may anticipate a patent, if they teach what the patentee claims as his invention. See, *Des Rosiers vs. Ford Motor Co.*, 1944, 1 Cir., 143 F(2) 907, 911-912). However, unless the drawings specifically limit the scope of an invention, they are merely illustrative. (See, *Permutit vs. Graver Corp.*, 1931, 284 U.S. 52, 60) The specifications may limit the claims. (*Schnitzer vs. California Corrugated Culvert Company*, 1944, 9 Cir., 140 F(2) 275, 276; *Kemart vs. Printing Arts Research Laboratories, Inc.*, 1953, 9 Cir., 201 F(2) 624, 629) However, because "the claim is the measure of the grant",—*Universal Oil Co. vs. Globe Oil & Refining Co.*, 1949, 322 U.S. 471, 484,—the inventor is entitled to the full scope of his claim, regardless of the manner in which he may have sought to illustrate the embodiment in a drawing [104]

Indeed, Rubinstein says specifically:

"While I have shown and described two constructions in which the invention may be advantageously embodied, it is to be understood that the constructions shown have been selected merely for the purpose of illustration or example and that various changes in the size, shape and arrangement

of the parts may be made without departing from the spirit of the invention or the scope of the subjoined claims."

The patent in suit states:

"Two embodiments of the invention described generally above have been illustrated in the drawings, * * *,"

The inventor has not limited himself to them, nor has he excluded others.

To be anticipatory, a patent or a publication must,—to use the language of Judge Learned Hand: "bear within its four corners adequate directions for the practice of the patent invalidated. If the earlier disclosure offers no more than a starting point for further experiments, if its teaching will sometimes succeed and sometimes fail, if it does not inform the art without more how to practice the new invention, it has not correspondingly enriched the store of common knowledge, and it is not an anticipation." (Dewey & Almy Chemical Co. vs. Mimex Co., 1942, 2 Cir., 124 F(2) 986, 989)

(And see, Lincoln Stores, Inc. vs. Nashua Mfg. Co., 1946, 2 Cir., 157 F(2) 154, 160) [105]

If the prior patent does not solve the problem which the subsequent patent solved ultimately, there is no anticipation. (See, Williams Iron Works Co. vs. Hughes Tool Co., 1940, 10 Cir., 109 F(2) 500, 510; Lincoln Stores, Inc. vs. Nashua Mfg. Co., *supra*, p. 160) And that is exactly the situation here.

It follows that the patent is valid and infringed by the defendants' devices enumerated in the separate Order to be filed with this Opinion.

II.

The Claim of Unfair Competition

The plaintiff has not shown any legal grounds for relief for unfair competition. The defendants' instruments are all marked plainly with the name of their company. There has been no confusion of source. The single questionable incident was explained satisfactorily. (See, Restatement, Torts, Sec. 728, Comment (a); and see, the writer's opinion in *Palmer vs. Gulf Publishing Co.*, 1948, D.C. Cal., 79 F. Supp. 731, 737,738) The claim that the defendant Edmund W. Pitzer, while in the employ of the plaintiff, learned the names of his customers and the sources of supply for his materials, and that he later appropriated these "trade secrets" is not supported by the record. The use of potentiometers being limited almost entirely to airplane manufacturers working in the field of guided missiles and constructing chiefly for the United States Government, it follows that anyone entering the field would, of necessity, approach and solicit these suppliers. The use of certain precious metals in the making of the patented device was known to the industry and disclosed by information supplied by the Research Departments of certain Government Agencies to persons interested in the field. So, [106] granting that a case of unfair competition may arise from disclosure of secret practices (See, *Du-pont Powder Co. vs. Masland*, 1917, 244 U.S. 100; *Riess vs. Sanford*, 1941, 47 Cal. App(2) 244, 246-247; *Smith vs. Dravo Corp.*, 1953, 7 Cir., 203 F(2) 369, 376-377), the facts here do not support such

a claim. (See, Restatement, Torts, Sec. 757, Comment (b); Mycalex Corp. of America vs. Pemco Corp., 1947, 4 Cir., 159 F(2) 907, 912-913; Pagliero vs. Wallace China Co., 1952, 9 Cir., 198 F(2) 339, 343-344; Continental Car-Na-Var Corp. vs. Moseley, 1944, 24 C(2) 104, 110; Aetna Building Maintenance Co. vs. West, 1952, 39 C(2) 198, 204-206)

In sum, the defendants deliberately set out to appropriate the plaintiff's patent in a field in which they had very little, if any, knowledge or experience. No previous inventive faculty is claimed by any of the persons composing the defendants corporation. However, such information as the defendants acquired through Pitzer about customers and materials were matters of general knowledge in the industry and cannot be turned into "trade secrets", either by the fiat of the plaintiff or by any clauses in the contract of employment with Pitzer. (See, Avocado Sales Co., vs. Wyse, 1932, 122 Cal. App. 627, 634-636; De Luxe Box Lunch & Catering Co. vs. Black, 1948, 86 Cal. App.(2) 434, 438-439)

Judgment for the plaintiff. The specific terms to be set forth in a separate Order filed with this Opinion.

Dated this 15th day of July, 1954.

/s/ LEON R. YANKWICH,
Judge. [107]

[Endorsed]: Filed July 15, 1954.

[Title of District Court and Cause.]

DECISION

The above entitled cause heretofore tried, argued and submitted, is now decided as follows:

Upon the grounds set forth in the Opinion filed herewith, Judgment and Decree will be for the plaintiff on the first cause of action as follows:

(a) The patent in suit is valid and the defendants have infringed the single claim of the patent. The Court designates the following structures of the defendants as infringing:

Exhibit I (Plate 6 of Plaintiff's Exhibit).

Plate 9 (of the same Exhibit).

Defendants' Exhibit U (Plate 11).

Defendants' Exhibit T (Plate 14).

Plaintiff's Exhibit 30 (Plate 17).

Defendants' Exhibit E(1).

Plate 20. [108]

Injunction will issue enjoining future infringement. Accounting for profits and/or damages is ordered, Reference to a Master to be made for such purposes, after the Judgment shall have become final.

(b) Plaintiff to take nothing by the second cause of action for unfair competition.

(c) Costs to the plaintiff.

Findings and Interlocutory Decree to be prepared by counsel for the plaintiff under Local Rule 7.

Dated this 15th day of July, 1954.

/s/ LEON R. YANKWICH,
Judge. [109]

[Endorsed]: Filed July 15, 1954.

[Title of District Court and Cause.]

**OBJECTIONS OF DEFENDANTS TO PLAINTIFF'S PROPOSED FINDINGS OF FACT,
CONCLUSIONS OF LAW, AND JUDGMENT [110]**

Defendants respectfully submit that the proposed Findings of Fact, Conclusions of Law, and Judgment, heretofore lodged with the above-entitled Court by plaintiff, are deficient and do not include matters which are material to the issues presented to and determined by this Court. Defendants are therefore lodging concurrently herewith their own proposed Findings of Fact, Conclusions of Law, and Judgment, which we believe cures the deficiencies in the documents heretofore proposed by plaintiff and which carry out the decision of this Court as set forth in its memorandum opinion. This memorandum will point out the deficiencies in the documents proposed by plaintiff, and will explain the additional material found in the revised proposals of defendants. It should be pointed out that defendants were the prevailing parties as to

Count II of the Amended Complaint, and we believe the proposals submitted herewith are vital to support the Court's judgment as to that Count.

The proposed Findings of Fact, Conclusions of Law, and Judgment heretofore lodged by plaintiff with the above-entitled Court, are deficient and erroneous in the following respects:

I. Findings of Fact:

A. Findings of Fact as proposed by plaintiff do not include any Findings which state that the Model B-11 and Model B-12 potentiometers manufactured by defendants do not infringe U. S. patent No. 2,515,981. The fact of non-infringement by each of said potentiometers is material to issues presented by the Amended Complaint and by Counter-claim IV, and each of said potentiometers was placed in evidence at the trial herein by plaintiff. Plaintiff did not, however, claim infringement by said potentiometers and the decision of this Court did not include said potentiometers among those which it held infringed plaintiff's patent. Since those instruments were in issue at the trial, they should be covered by the [111] Findings and Judgment.

B. Said Findings of Fact as proposed by plaintiff do not dispose of issues presented by Count II of the Amended Complaint for unfair competition and decided by this Court relating to (1) the alleged appropriation by defendants of plaintiff's trade secrets; (2) the alleged appropriation by defendants of plaintiff's customers; (3) the asserted

breach by defendants of that employment contract between defendant, Edmund W. Pitzer, and plaintiff; (4) the claimed consumer confusion relating to the source of potentiometers manufactured by plaintiff and by defendants; (5) the claimed attempts by defendants to pass off potentiometers manufactured by them as plaintiff's; and (6) the claimed secondary meaning of the potentiometers manufactured by plaintiff.

Defendants proposed Findings of Fact incorporate in toto those proposed by plaintiff, and, beginning with Paragraph XXI of defendants' proposed Findings of Fact, add Findings which we submit are essential to correct the above-noted deficiencies in order to comply with and effectively support the decision of this Court.

II. Conclusions of Law.

A. Plaintiff's proposed Conclusions of Law are deficient in the same respects and are subject to the same Objections as his proposed Findings of Fact.

B. In addition, plaintiff's proposed Conclusions of Law do not state with particularity or certainty the scope or extent of the injunction to be entered herein against the defendants.

C. Plaintiff's proposed Conclusions of Law erroneously fail to exempt from the injunction to be entered herein the sale by defendants of potentiometers to the United States Government or to contractors or sub-contractors of the United [112] States Government, as required by Section 1498

of Title 28 of the U. S. Code. More than 97% of all linear motion potentiometers sold by defendants have been sold to the United States Government and to Douglas Aircraft Company, Bendix Aviation Corporation and Convair as contractors for the United States Government. (Defendants' Exhibit Y.) Affidavits which have been executed by counsel for those companies are being filed with this Court to show that those companies have been and now are authorized by the United States Government to purchase potentiometers from defendants. Any sale of potentiometers to those companies, to other contractors of the United States Government or to the United States Government itself, should therefore be exempted from the injunction to be entered herein, as specifically provided in Section 1498 of Title 28 of the U. S. Code.

Defendants have incorporated Paragraphs 1 through 4 of plaintiff's proposed Conclusions of Law in Paragraphs 6 through 9 of the Conclusions of Law proposed by defendants. Paragraphs 1 through 5 of defendants' proposed Conclusions of Law have been added and are designed to remedy the above noted deficiencies.

III. Judgment.

The proposed Judgment lodged concurrently herewith by defendants incorporates the language of that Judgment proposed by plaintiff, with the following modifications:

A. Paragraph IV has been added and recites that the Model B-11 potentiometer and the Model

B-12 potentiometer manufactured by defendants do not infringe Letters Patent No. 2,515,981;

B. Paragraph 12 in plaintiff's proposed Judgment (Paragraph 13 in defendants' proposed Judgment) has been modified [113] so that the injunction therein shall comply with Section 1498 of Title 28 of the U. S. Code;

C. Paragraph 13 of plaintiff's proposed Judgment (Paragraph 14 of defendants' proposed Judgment) has been modified to provide that plaintiff may not recover damages for the sale of potentiometers by defendants to the United States Government or its contractors, as required by Section 1498 of Title 28 of the United States Code.

Defendants therefore respectfully object to the proposed Findings of Fact, Conclusions of Law, and Judgment, heretofore lodged with this Court by plaintiff, and submit herewith in lieu thereof, for consideration by this Court, their proposed Findings of Fact, Conclusions of Law, and Judgment.

Dated: September 3, 1954.

GIBSON, DUNN & CRUTCHER

SAMUEL O. PRUITT, JR.

By SAMUEL O. PRUITT, JR.

Attorneys for Defendants and Counterclaimants,
Edeliff Instruments, Edmund W. Pitzer and
Clifford Dillon. [114]

[In ink: Considered Overruled. L. R. Y.]

[Endorsed]: Lodged September 3, 1954.

[Endorsed]: Filed September 8, 1954.

[Title of District Court and Cause.]

AFFIDAVIT OF J. E. COATES

State of California,
County of Los Angeles—ss.

J. E. Coates, being first duly sworn deposes and says:

He is Chief Patent Counsel for Douglas Aircraft Company, Inc., Santa Monica, California, and that in the normal and ordinary course of his duties he has become familiar with and knows the contents of the records and files of that company relating to the purchase by Douglas Aircraft Company, Inc. of potentiometers from [115] Edcliff Instruments; said files reveal that all potentiometers purchased by Douglas Aircraft Company, Inc. from Edcliff Instruments have been purchased with the authorization and consent of the United States Government and under and pursuant to United States Government contracts, and have been paid for by the United States Government; said files further reveal that all of said potentiometers have either been incorporated by Douglas Aircraft Company, Inc. into devices which have been delivered to the United States Government, or have been used by Douglas Aircraft Company, Inc. for research and development purposes directly in connection with United States Government classified projects.

Attached hereto and designated Exhibit "A" are true and accurate copies of correspondence between Douglas Aircraft Company, Inc., and various agen-

cies of the United States Government, in which the United States Government authorized and consented to the purchase of said potentiometers from Edcliff Instruments by Douglas Aircraft Company, Inc.

/s/ J. E. COATES

Subscribed and sworn to before me this 30th day of August, 1954.

[Seal] /s/ CLARA J. KESLER,

Notary Public in and for said
County and State. [116]

EXHIBIT A
(Copy)

Airmail December 15, 1952 G-AN-L-13

To: Contracting Officer, Department of the Navy,
Bureau of Aeronautics, Washington 25, D. C.

Subject: Contracts NOa(s) 51-252 and 51-1061
Notice of Alleged Infringement.

1. Contractor has been notified by counsel for the Bourns Laboratories of Riverside, California, that the linear motion potentiometers (ORD P/N 8002925) which we are now purchasing from the Edcliff Instrument Company of Pasadena, California, for use under subject contracts, are a direct infringement of Bourn's patent No. 2,515,981. The Bendix Aviation Corporation, Pacific Division, North Hollywood, California, subcontractors under subject contracts, has received a similar notice. A copy of each notice is enclosed.

2. Bourns Laboratories has filed an action in the

Exhibit A—(Continued)

United States District Court, Southern District of California, Central Division, against the Edcliff Instrument Company, the cause being entitled Marlan E. Bourns, dba Bourns Laboratories, Plaintiff, vs. Edcliff Instrument Company, et al., Defendants. Civil Action No. 14764.

The action was filed 21 November 1952.

3. For the present Contractor has discontinued the purchase of the alleged infringing devices. It is preferable, however, to have more than one supplier for the potentiometers available, in the interest of both reasonable prices and timely deliveries. It is, therefore, respectfully requested that the Contracting Officer specifically authorize Contractor and its sub-contractors to procure and use the alleged infringing potentiometers in the performance of the work under subject contracts. [118]

4. The Edcliff Instrument Company has informed the Contractor that it believes that the Bourns patent is invalid and that the Edcliff device does not infringe thereon. Furthermore, Contractor has been informed that the Edcliff Company is willing to indemnify Contractor, and those claiming under him, against liability for infringement.

Yours very truly,

Douglas Aircraft Company, Inc.

J. E. Coates, Patent Counsel

FEM:wy—cc: E. Curtis, J. A. Dundas, Washington Office, W. C. Cleveland, F. Daniel Frost III, Gibson, Dunn & Crutcher, 634 South Spring Street, Los Angeles. [119]

Exhibit A—(Continued)

Air Mail February 27, 1953 G-AN-L-25
(Copy)

To: Contracting Officer, Department of the Navy,
Bureau of Aeronautics, Washington 25, D. C.

Subject: Contracts NOa(s) 51-252 and 51-1061.
Notice of Alleged Infringement.

Reference: Douglas Aircraft Company Letter
G-AN-L-13, 15 December 1952.

1. It would be appreciated if the action requested in our letter of 15 December 1952, G-AN-L-13, regarding the Bourns-Edcliff infringement matter could be expedited.

2. We are about to write additional bids on the linear potentiometers, and, as we previously indicated, we would prefer to have more than one source. Our procurement activities are necessarily restricted until we receive the answer requested.

Douglas Aircraft Company, Inc.
J. E. Coates, Patent Counsel

FEM:wy—cc: F. Daniel Frost, Gibson, Dunn & Crutcher, 634 S. Spring St., Los Angeles, Calif.
E. Curtis, J. Dundas, W. C. Cleveland, Washington Office. [120]

Exhibit A—(Continued)

Naval Speed Letter

(Copy)

Use for Urgent Letters Only—(xx) Regular Mail
—Do Not Clear Through Communication Office—Classification: Unclassified.

In reply refer to: Aer-PL-1, NOas 51-252, NOas 51-1061 60374. 30 Apr 1953

To: Bureau of Aeronautics Resident Representative, Santa Monica Division, Douglas Aircraft Company, Inc., Santa Monica, California.

Reference: Barr Douglas Aircraft Company, Inc SPDLTR DMK:wg, SER 2237, NOa(s) 51-252; NOa(s) 51-1061, G-AN-L-29, DTD 22 Apr 1953.

Subject: Contracts NOa(s) 51-252 and NOa(s) 51-1061.

Douglas Letters G-AN-L-13 and G-AN-L-25 Do Not Make Clear the Reasons for the Douglas Request Particularly as Contracts NOas 51-252 and NOas 51-1061 Include the ASPR 9-106 (Authorization and Consent) Clause and Do Not Contain the ASPR 9-105 (Patent Indemnity) Clause.

James S. Tassin, Contracting Officer
Bureau of Aeronautics

DMK:wg, NOa(s) 51-252, NOa(s) 51-1061.

Exhibit A—(Continued)

End. 1. May-5 1953. From: Bureau of Aeronautics
Resident Representative, Santa Monica, Calif.
To: Douglas Aircraft Co., Inc., Santa Monica
Plant. For: Action Indicated. Attn: J. E.
Coates G-17. (x) Information. (Stamped) D.
M. Kelly wg By Direction.

Patent Department Received May 6-1953 Douglas
Aircraft Company, Inc.

Copy to Douglas Aircraft Company, Inc., Santa
Monica, California, Department G-17, J. E.
Coates.

Address: Contracting Officer, Bureau of Aeronau-
ties, Department of the Navy, Washington 25,
D. C. Classification: Unclassified. [121]

Copies to: Dundas, Curtis, F. Daniel Frost, Wash-
ington Office. (Copy)

Air Mail May 11, 1953 G-AN-L-33

To: Legal Office, Office, Chief of Ordnance, ORD-
GL-PT, Ordnance Department, Department of
the Army, Washington 25, D. C.

Attention: W. E. Thibodeau.

Subject: Contract W-30-069-ORD-3182 (Bell Tele-
phone Laboratories Purchase Order 139701)

Contract DA-30-069-ORD-36 (Bell Telephone
Laboratories Purchase Order 170919)

Contract DA-30-069-ORD-125 (Western Elec-
tric Company, Inc., Purchase Order M-50852)

Contract DA-30-069-ORD-746 (Western Elec-
tric Company, Inc., Purchase Order M-52702)

Exhibit A—(Continued)

Enclosure: Douglas Letter G-L-230, to Western Electric Co., Inc.

1. At the request of Mr. F. Daniel Frost of the firm of Gibson Dunn and Crutcher, Los Angeles, California, Counsel for the Edcliff Instrument Company, Pasadena, California, Contractor hereafter sets forth the circumstances of the infringement matter between the Edcliff Company and the Bourns Laboratories, Riverside, California.

2. As the Ordnance Department has been previously informed by the Western Electric Company, Contractor and its sub-contractor, Bendix Aviation Corporation, have received formal notices of infringement with regard to Patent No. 2,515,981 owned by Bourns Laboratories, and covering Linear Motion Potentiometers.

3. Prior to receiving the notice of infringement from the Bourns Company, Contractor bought potentiometers, in the performance of work under subject contracts, from both Edcliff and Bourns, and used them in two distinct ways. Some of the instruments were incorporated in articles ultimately delivered to the White Sands Proving Grounds, and others were retained in the Contractor's laboratories and used for various experimental purposes directly connected with subject contracts such as specification testing, testing of sub-assemblies received from sub-contractors, and other operations of [122] like nature. It is to be seen, that with regard to the first group, the usual authorization is sufficient to protect Contractor, because the government actually accepts

Exhibit A—(Continued)

an article embodying the alleged infringing device. With regard to the second group of instruments, the authorization and consent clause does not operate because the alleged infringing device is never embodied in a structure or article which is delivered to the government, nor is it required in the machinery, tools or methods called for by the applicable specifications.

6. Contractor desires a determination, at the earliest moment, either specifically authorizing Contractor to purchase the Edcliff devices, or specifically informing Contractor to refrain from purchasing the Edcliff devices.

5. Contractor desires to purchase the Edcliff devices in the interest of both lower prices and timely delivery. The "price history" of the instruments is set forth in the attached letter.

6. The authorization and consent clauses of subject contracts read as follows:

W-30-069-ORD-3182 (Bell Telephone Laboratories Purchase Order 139701).

"A. As to claims by others against the Contractor or the Laboratories or Western Electric Company, Incorporated or the United States Government by reason of claims for infringement or rights in, to or under patents by the manufacture, use or sale of any material or equipment furnished by the Contractor to the Laboratories under this Agreement, it is agreed as follows:

1. For the purposes set forth in Section 6, of the

Exhibit A—(Continued)

Royalty Adjustment Act 1942 (Public No. 768, 77th Cong., 35 USC 68), and for no other purpose whatsoever, the Government shall, without prejudice to its rights of indemnification, if any, be deemed to have given its authorization and consent to the use and manufacture, in the performance of this contract or of any subcontract hereunder, (1) of any patented invention embodied in the structure or composition of any article the delivery of which is accepted by the Government under this contract and (2) of any patented invention utilized in machines or methods the use of which necessarily results from compliance by the Contractor or the using subcontractor with (i) specifications or written provisions now or hereafter forming a part of this contract or (ii) specific written instructions given by the Contracting Officer for the [123] purpose of directing the manner of such performance."

Contract DA-30-069-ORD-36 (Bell Telephone Laboratories Purchase Order 170919).

"Article 30. Authorization and Consent—The authorization and consent by the Government is hereby given (without prejudice to its rights of indemnification, if such rights are provided for in the purchase order) for all use and manufacture in the performance of this purchase order or any part hereof or any amendment hereto or any subcontract hereunder of any patented invention (i) embodied in the structure or composition of any Article the delivery of which is accepted by the Government

Exhibit A—(Continued)

under this purchase order, or (ii) utilized in the machinery, tools or methods the use of which results from compliance by you or any using subcontractor with (a) specifications or written provisions now or hereafter forming a part of this purchase order or (b) specific written instructions given by the Contracting Officer directing the manner of performance."

Contract DA-30-069-ORD-125 (Western Electric Company, Inc., Purchase Order M-50852).

"Article 22. Our prime contract number DA30-069-ORD-125 contains authorization and consent clause ASPR 9-16."

Contract DA-30-069-ORD-746 (Western Electric Company, Inc., Purchase Order M-52702).

"Article 22. Our prime contract number DA-30-069-ORD-746 contains authorization and consent clause ASPR 9-106."

7. The word "necessarily" is apparently included in all of the above contracts, except BTL P.O. 170919.

8. Contractor considers Bell Telephone Laboratories Purchase Order 139701, issued under contract number W-30-069-ORD-3182, to be for research and development; Purchase Order 170919, issued under contract number DA-30-069-ORD-36, to be for both research and development and limited production; Western Electric Purchase Order M-50852 issued under contract number DA-30-069-ORD-125, to be a production contract; and Western Electric Company Purchase Order M-52702, issued under con-

Exhibit A—(Continued)

tract number DA-30-069-ORD-746 to be a production contract.

Douglas Aircraft Company, Inc.

J. E. Coates, Patent Counsel. [124]

FEM:rnp

June 5, 1953

G-A-M-L-35

To: Contract and Royalty Section, Chief Patent Counsel, Bureau of Ordnance, Department of the Navy, Washington 25, D.C.

Attention: Mr. George Seavers

Subject: Contract NOa(s) 51-252, Contract NOa(s) 51-1061.

References: (a) Douglas Letter G-AN-L-13, 15 Dec. 1952; (b) Douglas Letter G-AN-L-25, 27 Feb. 1953; (c) Naval Speed Letter, BARR, Douglas Aircraft Co., Inc. SPDLTR DMK:wg, SER 2237, NOa(s) 51-252; NOa(s) 51-1061 G-AN-L-29, DTD 22 April 1953; (d) Bureau of Aeronautics Speedltr Serial 60374, NOa(s) 51-252 NOa(s) 51-1061, dtd 30 April 1953.

1. At the request of Mr. F. Daniel Frost of the firm of Gibson Dunn and Crutcher, Los Angeles, California, Counsel for the Edcliff Instrument Company, Pasadena, California, Contractor hereinafter sets forth the circumstances of the infringement matter between the Edcliff Company and the Bourns Laboratories of Riverside, California.

2. As the Navy Department has previously been

Exhibit A—(Continued)

informed, Contractor and its sub-contractor, Bendix Aviation Corporation, have received formal notices of infringement with regard to Patent No. 2,515,981 owned by Bourns Laboratories, and covering Linear Motion Potentiometers.

3. Prior to receiving the Notice of Infringement from the Bourns Co., Contractor bought potentiometers, in the performance of work under subject contracts, from both Edcliff and Bourns, and used them in two distinct ways. Some of the instruments were incorporated in articles ultimately delivered to the Government, and others were retained in the Contractor's laboratories and used for various experimental purposes directly connected with subject contracts, such as specification testing, testing of sub-assemblies received from sub-contractors, and other operations of like nature. It is to be seen that with regard to the first group, the usual authorization is sufficient to protect Contractor, because the government actually accepts an article embodying the alleged infringing device. With regard to the second group of instruments, the authorization and consent clause does not operate because the alleged infringing device is never embodied in a structure or article which is delivered to the government, nor is [125] it required in the machinery, tools or methods called for by the applicable specifications.

4. Contractor desires a determination, at the earliest moment, either specifically authorizing Contractor to purchase the Edcliff device, or specifically informing Contractor to refrain from purchasing the Edcliff device.

Exhibit A—(Continued)

5. Contractor desires to purchase the Edcliff device in the interest of both lower price and timely delivery. Contractor has purchased three different types of potentiometers from both companies. They are commonly known as single, double, and triple potentiometers, and apparently all are considered by Bourns to read on Patent No. 2,515,981. Their price "history" is approximately as follows:

	Single	Double	Triple
10/51	\$55 each	\$90 each	\$160 each
6/52	\$22 each	\$50 each	\$145 each
1/53	\$22 each	\$50 each	\$ 95 each

While undoubtedly some of the decline in the price of the instruments is attributable to increased production by the patentee, it is believed that a large share of the price decline is attributable to the appearance of a second source for the instruments.

Yours very truly,

Douglas Aircraft Company, Inc.
For, J. E. Coates, Patent Counsel.

FEM:rnp—cc: F. Daniel Frost, Gibson, Dunn & Crutcher. J. A. Dundas, E. Curtis, Washington Office. [126]

Exhibit A—(Continued)

Department of the Army
Office of the Chief of Ordnance
Washington 25, D.C.

[Seal of Dept. of Defense] (Copy)

In Reply Refer to: Douglas Aircraft Co., Inc.,
Santa Monica, California. 8 June 1953

Attn: Mr. J. E. Coates, Patent Counsel.

Gentlemen:

This is in reply to your letter G-AN-L-33, dated May 11, 1953, on the subject of Contracts Nos:

W-30-069-Ord-3182

DA-30-069-Ord-36

DA-30-069-Ord-125

DA-30-069-Ord-746.

The first two contracts (Research and Development) contain Authorization and Consent Clauses, without the qualification "necessarily", giving authorization and consent *** for all use in the performance of (the) contract or any part (thereof) or any amendment (thereto) or any subcontract (thereunder) * * * of any patent invention * * *(ii) utilized in * * * methods the use of which results from compliance by the Contractor or the using subcontractor with (a) specifications or written provisions * * *".

The last two contracts (Supply) contain Research and Development articles which provide that research and development or design incident to or

Exhibit A—(Continued)

arising from the performance of these contracts shall be governed by the provisions of the basic contract W-30-069-Ord-3182. Therefore, these contracts, with respect to experimental activities thereunder, are dependent from the basic contract and its extension (DA-30-069-Ord-36).

For the foregoing reasons, this office is of the opinion that use "for various experimental purposes directly connected with subject contracts such as specification testing, testing of sub-assemblies received from sub-contractors, and other operations of like nature" is authorized under the existing terms of the contracts.

For the reason that your letter G-L-230 dated April 21, 1953 to Western Electric Co. recites "used for various experimental purposes" without the limitation "directly connected with subject contracts", [127] it is emphasized that this opinion is limited to such various experimental purposes as are connected with subject contracts. Any generalized experimentation must be governed by the general law on the subject.

For the Chief of Ordnance:

Sincerely yours,

/s/ W. E. Thibodeau, Assistant

Exhibit A—(Continued)

Department of the Navy, Bureau of Ordnance
(Copy) Washington 25, D. C.

In reply refer to Ref:O'B;pjc A13-1 17 Jun 1953

Mr. J. E. Coates, Patent Counsel, Douglas Aircraft Co., Inc., Santa Monica Division, Santa Monica, California.

My dear Mr. Coates:

This is to advise that your letter of 5 June 1953 to the Contract and Royalty Section, Chief Patent Counsel, Bureau of Ordnance, Department of the Navy, Washington 25, D. C., regarding contracts NOa(s) 51-252 and NOa(s) 51-1061 has been forwarded to the Patent Counsel, Bureau of Aeronautics, as a matter under his cognizance.

A copy of the letter has also been provided Mr. George Seevers of the Patents Division of the Office of Naval Research for his information.

Sincerely yours,

/s/ G. D. O'Brien,

Bureau of Ordnance Patent Counsel. By direction of the Chief of Bureau.

Patent Department Received Jun 22 1953 Douglas Aircraft Company, Inc. [129]

Exhibit A—(Continued)

June 17, 1953

(Copy)

G6-398

Mr. F. J. Schmitt, Patent Counsel, Bureau of Aeronautics, Dept. of Navy, Washington 25, D. C.

Re: Bourns vs. Edcliff Linear Potentiometer

Dear Sir:

I have now received further word from the home office to the effect that none of the subject potentiometers bought on the Navy account are retained by the Contractor but rather are placed in the proper assemblies and are delivered to the Navy.

The experimental and special testing work which we described in our recent letter actually takes place but is confined to the work which we are doing in connection with Army Ordnance contracts involving the same potentiometers.

I am enclosing for your information a copy of the Test Procedure for Model 1242 which will give an idea of the work done in our plant in checking the article. The subject potentiometers are in the feedback voltage circuits of the wing position indicators.

Since all of the Edcliff potentiometers purchased for the Navy have been delivered to the Navy, the authorization and consent clause in the contract properly covers them. However, we shall await your further advice on whether or not to resume purchasing from Edcliff.

Very truly yours,

Douglas Aircraft Co., Inc.

J.E.C.:le

J. E. Coates, Patent Counsel

Exhibit A—(Continued)

Department of the Navy, Bureau of Aeronautics
Washington 25, D.C.

(Seal of the Dept. of Defense)

(Copy)

In reply refer to Aer-PL-1.

(Contract references deleted by order of U. S. Government)

Douglas Aircraft Company, Inc.

29 Jun 1953

Santa Monica, California

010657

Attention: Mr. J. E. Coates.

Gentlemen:

Receipt is acknowledged of your letter G6-398 dated 17 June 1953, forwarding a copy of "Test Procedure for Model 1242", and advising that all Edcliff potentiometers purchased for the Navy have been delivered to the Navy and therefore the authorization and consent clause in the contract properly covers such purchases.

Further action, therefore, by the Bureau of Aeronautics is unnecessary, particularly in view of the speed letter from this bureau dated 30 April 1953.

Sincerely yours,

/s/ F. J. Schmitt, Patent Counsel

Patent Department Received Jul 2-1953 Douglas
Aircraft Company, Inc. [131]

[Endorsed]: Filed September 3, 1954.

[Title of District Court and Cause.]

AFFIDAVIT OF LEONARD COMEGYS

State of California,
County of Los Angeles—ss.

Leonard Comegys, being first duly sworn deposes and says:

He is Divisional Counsel for Bendix Aviation Corporation, Pacific Division, Plant No. 1, at North Hollywood, California, and that in the normal and ordinary course of his duties he has become familiar with and knows the contents of the records and files of that [132] corporation relating to the purchase by it of potentiometers from Edcliff Instruments. Said files reveal that all potentiometers purchased from Edcliff Instruments by Bendix Aviation Corporation, Pacific Division, have been purchased by said corporation in its capacity as subcontractor to Douglas Aircraft Company, Inc., and under and pursuant to United States Government contracts. Said files further reveal that all of said potentiometers have been or will be delivered to Douglas Aircraft Company, Inc., for ultimate delivery to the United States Government or for incorporation into devices manufactured for the United States Government and used by Douglas Aircraft Company, Inc., for research and development purposes directly in connection with United States Government classified projects.

/s/ LEONARD COMEGYS

Subscribed and sworn to before me this 20th day
of August, 1954.

[Seal] /s/ ELENORE E. RICHARDSON,
Notary Public in and for said
County and State. [133]

[Endorsed]: Filed September 3, 1954.

[Title of District Court and Cause.]

AFFIDAVIT OF WALTER J. JASON

State of California,
County of Los Angeles—ss.

Walter J. Jason, being first duly sworn, deposes
and says:

He is Patent Director for Consolidated Vultee
Aircraft Corporation, San Diego, California, and
that in the normal and ordinary course of his duties
he has become familiar with the contents of the
records and files of that company relating to the
[134] purchase by Consolidated Vultee Aircraft
Corporation of potentiometers from Edcliff Instru-
ments. Said files reveal that all potentiometers pur-
chased by Consolidated Vultee Aircraft Corporation
from Edcliff Instruments have been purchased un-
der and pursuant to United States Government con-
tracts, that each of said contracts contains an au-
thorization and consent clause, and that said po-
tentiometers have been or are to be resold to and

paid for by the United States Government. Said files further reveal that all of said potentiometers have either been incorporated or will be incorporated by Consolidated Vultee Aircraft Corporation into devices which have been or will be delivered to the United States Government, or have been used by Consolidated Vultee Aircraft Corporation for research and development purposes in connection with United States Government classified projects.

Attached hereto and designated Exhibit "A" are true and accurate copies of correspondence between Consolidated Vultee Aircraft Corporation and various agencies of the United States Government in which the United States Government specifically authorized and consented to the purchase of potentiometers from Edcliff Instruments by Consolidated Vultee Aircraft Corporation under certain United States Government contracts.

/s/ WALTER J. JASON

Subscribed and sworn to before me this 26th day of August, 1954.

[Seal] /s/ L. A. BUNNEY,

Notary Public in and for said
County and State

[135]

EXHIBIT A

Convair (Copy) April 28, 1953

To: Chief, Bureau of Ordnance, Department of the
Navy, Washington 25, D. C.Subject: Contract NOrd-F-1492, and others.
Pomona Guided Missile Facility.

1. Edcliff Instruments, Inc., a Pasadena, California company, has advised this office that it wishes to negotiate the sale of linear potentiometers to Convair's Guided Missile Division at Pomona. It is our understanding that these devices have been tested by our engineers and would be desirable for use at that division in effecting performance of our BuOrd contracts.
2. A patent infringement suit has been brought against Edcliff Instruments, Inc., by Bourns Laboratories of Riverside, charging that the linear potentiometers being offered for sale violate certain of the Bourns' patents.
3. Inasmuch as there is this question of possible patent infringement, the Contractor requests confirmation that our contracts with BuOrd relating to work done at the Pomona Division provides authorization and consent for our purchase and use of the subject devices, in order that any claim for relief by a patentee will be made against the United States in the Court of Claims and not against this Contractor.
4. The attorneys for Edcliff Instruments have

advised us that their client is willing to provide indemnification against patent infringement liability.

5. Information has been submitted to us to the effect that Mr. Edward C. Walsh, patent counsel for U. S. NOTS, had advised, or was advising, the Department of the Navy that the above mentioned law suit should not bar the Navy from purchasing Edcliff Instrument's linear potentiometers. Mr. Walsh became involved in this matter in connection with a request from Douglas Aircraft for permission to buy the subject linear potentiometers for use in the performance of a BuAir contract held by Douglas. [137]

6. Your advice is awaited as to whether Convair will be permitted to purchase the subject linear potentiometers from Edcliff Instruments, Inc.

Consolidated Vultee Aircraft Corp.
San Diego Division
Walter J. Jason,
Acting Patent Director

WJJ:bh [138]

Received Patent Dept. Jun 16 1953 Consolidated
Vultee Aircraft Corporation (Copy)
Ref: GTM:jgl NOrd-F-1492 8 June 1953

From: Chief, Bureau of Ordnance.
To: Consolidated Vultee Aircraft Corporation, San
Diego 12, California.
Via: Bureau of Ordnance Representative, San Di-
ego 12, California.
Subj: Letter of Intent NOrd-F-1492; Procurement
of potentiometers thereunder.
Ref: (a) Convair ltr of 28 April 1953 to BUORD.

1. Reference (a), a copy of Convair's original letter to the Bureau of Ordnance, mailed 28 April 1953, was forwarded to this office by Coniar's Washington representative, Mr. J. P. Shaw. Since the original correspondence has not been located as of this time, copies of reference (a) will be routed to the various cognizant sections of the Bureau.
2. Subject Letter of Intent when converted into a definitive contract will contain the standard Authorization and Consent clause and the contractor is at this time advised that it may consider that said clause is in operation insofar as the work done at the Pomona Division under subject Letter of Intent is concerned. Under the Act of June 25, 1948 (28 U.S. Code 1498) which replaces the Act of June 25, 1910, as amended (35 U.S. Code 68), any suit for infringement of a patent by a contractor or by any subcontractor (including lower-tier subcontractors) in the performance of a Government contract must be brought against the Government in

the Court of Claims, and not against the contractor, if the Government gives its authorization or consent to the manufacture or use of the patented invention. The contractor is thereby protected from injunctive action in the performance of a Government contract, although the Government may not bear the ultimate liability in the event of recovery in the Court of Claims, such liability being dependent upon whether or not there is a Patent Indemnity clause in the contract.

3. The following is the clause which will be included in the definitive contract and is to be considered as approved for use under subject Letter of Intent:

Authorization and Consent

“The Government hereby gives its authorization and consent (without prejudice to its rights of indemnification, if such rights are provided for in this contract) for all use and manufacture, in the performance of this contract or any part hereof or any amendment hereto or any subcontract hereunder (including any lower-tier subcontract), of any patented invention (i) embodied in the structure or composition of any article the delivery of which is accepted by the Government [139] under this contract, or (ii) utilized in the machinery, tools or methods the use of which necessarily results from compliance by the Contractor or the using subcontractor with (a) specifications or written provisions now or hereafter forming a part of this contract, or (b) specific written instructions given by

the Contracting Officer directing the manner of performance."

4. While it is not the general policy of the Bureau to participate or voice opinion in the specific source of procurement chosen by the contractor for the obtaining of supplies under Bureau of Ordnance contracts, the Bureau does, however, appreciate such matters being brought to its attention when the question of infringement is involved. It has always been presumed that such choice and procurement will be made in the best interest of the Government and will provide the best quality of material possible. To this end it might be stated that certain designs should be overlooked or discarded by the contractor merely for the reason that the question of infringement might arise, particularly when quality and/or low price may be sacrificed.

5. It is understood from reference (a) that Ed-cliff Instruments is willing to provide indemnification against patent infringement liability. Therefore, if procurement is made from this company, it is suggested that such provisions be incorporated in the subcontract.

6. In any event the contractor is hereby authorized to proceed with the purchasing of subject potentiometers under the provisions of the above clause.

M. F. Schoeffel

Gerald D. O'Brien, By Direction

Copy to: Mr. J. P. Shaw, Suite 801 World Center Building, 918 Sixteenth Street, N.W., Washington 6, D. C.

Distributed by Contracts (JPS) 15 June 1953 to:
C. C. Sawyer, W. J. Jason, A. W. Abels, P. V.
Ogden, NOrd-F-1492. [140]

Department of the Navy, Bureau of Ordnance
Washington 25, D. C.

(Copy) NIO Log No. 05622

Received Patent Dept. Jul 6 1953 Consolidated
Vultee Aircraft Corporation.

In reply refer to REF:GDO:B:jgl NOrd F-1492
20 June 1953

From: Chief, Bureau of Ordnance.

To: Consolidated Vultee Aircraft Corporation, San
Diego 12, California.

Via: Bureau of Ordnance Representative, San Di-
ego 12, California.

Subj: Letter of Intent NOrd F-1492; Procurement
of Potentiometers.

Ref: (a) Convair ltr of 28 April 1953 to BUORD;
(b) BUORD ltr Ref:GTM:jgl NOrd F-1492 of
8 June 1953 to Convair.

1. Correction is requested of paragraph 4 of re-
ference (b) which was written in reply to reference
(a), the word "not" should be inserted at the end
of line 8 of paragraph 4 so that the ultimate sen-
tence of this paragraph will read as follows:

"To this end it might be stated that certain de-
signs should not be overlooked or discarded by the
contractor merely for the reason that the question
of infringement might arise, particularly when
quality and/or low price may be sacrificed."

M. F. Schoeffel

/s/ Gerald D. O'Brien, By Direction

First Endorsement July 1 1953. From: NIO. To:
CVAC. For: Action Indicated: X Information.
Dist. by Contracts Department (RAS) 3 July 1953:
C. C. Sawyer, A. W. Abels, W. J. Jason, P. V.
Ogden, F-1492 Chron. [141]

Department of the Navy, Bureau of Ordnance
Washington 25, D. C.

Received Patent Dept. Aug. 11 1953 Consolidated
Vultee Aircraft Corporation. (Copy)

NIO log 06853, Ref-GTM:vl, NOrd-11809, NOrd-
11297, NOrd-10706, 28 July 1953.

From: Chief, Bureau of Ordnance.

To: Consolidated Vultee Aircraft Corporation, San
Diego 12, California.

Via: Bureau of Aeronautics Representative, San
Diego 12, California.

Subj: Contracts NOrd-11809; 11297 and 10706; Au-
thorization to procure potentiometers there-
under.

Ref: (a) Convair ltr WJJ/db of 16 Jul 1953 to
BuOrd; (b) BuOrd ltr Ref:GTM:jgl NOrd-
F-1492 of 8 Jun 1953 to Convair.

1. In accordance with the request of reference
(a), authorization similar to that previously granted
by reference (b) is hereby given for procurement of
potentiometers under subject contracts.

2. It is suggested that indemnification provisions
be obtained in any potentiometer purchases made

under subject contracts as was provided under NOrd-F-1492.

M. F. Schoeffel

/s/ G. D. O'Brien, By Direction

FJM:glw EN11-23/14 Ser 3153 dtd 4 Aug 1953
First Endorsement on BuOrd ltr dtd 28 Jul 1953.
From: Bureau of Aeronautics Representative, San
Diego 12, California.

To: Naval Inspector of Ordnance, 1675 West 5th
Street, P.O. Box 1011, Pomona, California.

1. Readdressed and forwarded as a matter under
cognizance of your office.

C. W. Stirling

/s/ S. M. Arnold, By Direction

cc: BuOrd, Wash., D. C.

Dist. by Contracts (RAS) 10 August 1953 to: C. C.
Sawyer, File-11809 Chron; W. J. Jason, File-
11297 Chron; A. W. Abels, File-10706 Chron;
P. V. Ogden, File F-1492 Chron. [142]

[Endorsed]: Filed September 3, 1954.

[Title of District Court and Cause.]

MINUTES OF THE COURT

Date: Sept. 8, 1954, at Los Angeles, Calif.

Present: Hon. Leon R. Yankwich, District Judge;
Deputy Clerk: John A. Childress; Reporter: None.

Counsel for Plaintiff: No appearance.

Counsel for Defendants: No appearance.

Proceedings: The Court endorses "Considered. Overruled" on objections of defendants heretofore lodged Sept. 3, 1954, to plaintiff's proposed findings, etc.; and endorses "Considered. Declined to adopt." on defendants' proposed findings heretofore lodged Sept. 3, 1954.

Findings and judgment proposed by plaintiff are approved and signed as corrected. The Court has considered and overruled objections of defendants as embodied in their proposed findings.

The Court is of the view that the findings and judgment signed, cover the issues as tendered, and that the affidavit as to use by the Gov't of instruments need not be considered now, though it may have a bearing on the accounting.

EDMUND L. SMITH, Clerk [160]

[Title of District Court and Cause.]

FINDINGS OF FACT AND CONCLUSIONS OF LAW

Findings of Fact

I.

Plaintiff, Marlan E. Bourns, is a citizen of the United States and a resident of the City of Riverside, County of Riverside and State of California.

II.

Defendant, Edcliff Instruments, is a corporation

organized and existing under and by virtue of the laws of the State of California, formerly having a regular and established place of business at 850 South Fair Oaks, City of Pasadena, County of Los Angeles, State of California, and presently having a regular and established place of business at 383 North Foothill Boulevard, City of Pasadena, County of Los Angeles and State of California.

III.

Defendant, Edmund W. Pitzer, is a citizen of the United States and a resident of the City of Altadena, County of Los Angeles and State of California.

IV.

Defendant, Clifford Dillon, is a citizen of the United States and a resident of the City of Altadena, County of Los Angeles and State of California.

V.

Defendant on counterclaims Bourns Laboratories Instrument Sales Corporation is a corporation organized and existing under and by virtue of the laws of the State of California, having a regular and established place of business in the City of Riverside, County of Riverside and State of California.

VI.

Defendant on counterclaims, Bourns Position Instruments, Inc., is a corporation organized and existing under and by virtue of the laws of the State of California, having a regular and established

place of business in the City of Riverside, County of Riverside and State of California. [162]

VII.

Plaintiff, Marlan E. Bourns, is the owner of all right, title and interest in and to United States Letters Patent No. 2,515,981.

VIII.

Defendants, Edcliff Instruments, Edmund W. Pitzer, and Clifford Dillon have manufactured and sold, within the Southern District of California, City of Pasadena, County of Los Angeles, State of California and elsewhere in the United States, adjustable resistors known in the industry as potentiometers as exemplified by Defendants' Exhibit I and Plate 6 of Plaintiff's Exhibit 3; Plate 9 of Plaintiff's Exhibit 3; Defendants' Exhibit U and Plate 11 of Plaintiff's Exhibit 3; Defendants' Exhibit T and Plate 14 of Plaintiff's Exhibit 3; Plaintiff's Exhibit 30 and Plate 17 of Plaintiff's Exhibit 3; Plate 19 of Plaintiff's Exhibit 3, and Plate 20 of Plaintiff's Exhibit 3, and had manufactured and sold the said adjustable resistors within said District prior to the filing of the Complaint herein, and within the period of six years preceding the filing of the said Complaint.

IX.

The invention of the Bourns' patent No. 2,515,981 resides in the provision of an adjustable resistor or potentiometer which upon movement of a con-

tact plate from one position to another relative to an electrical resistance element varies the electrical resistance in a circuit and which upon return of the contact plate to its initial position will provide the identical resistance in the circuit as existed prior to movement of the contact plate utilizing a cover having a resistance element and electrically conductive strip and a base having the combination of a shaft and post to position the contact plate with respect to the resistance element as defined by the single claim of the patent. [163]

X.

The invention of the Bourns' patent in suit overcame a problem long existent in the art of telemetering conditions from a guided missile and provided a successful solution of that problem permitting accurate and dependable telemetering by virtue of the precise repeatability of the instruments constructed in accordance with the invention.

XI.

The structures manufactured and sold by defendants as identified in Finding number 8 embody each and every element of the invention of the Letters Patent to Marlan E. Bourns, No. 2,515,981, which in operation do not differ at all from the operation of the adjustable resistor disclosed in the Bourns' Patent No. 2,515,981 in suit and as said structure is defined by the claim of said Letters Patent.

XII.

Each and all of the elements of the defendants' structures as set forth in Finding number 8 cooperate in the same way to produce the same results and have the same mode of operation as the elements of the adjustable resistor disclosed and set forth in the Bourns' patent No. 2,515,981 and as defined in the claim of said Letters Patent.

XIII.

That defendants' adjustable resistors as set forth in Finding number 8 infringe the claim of the Bourns' patent in suit.

XIV.

That upon introduction of the adjustable resistor of the Bourns' patent in suit, the art extensively adopted the invention of the Bourns' patent and the invention of the Bourns' patent has been extensively recognized in the art as an invention prior to the filing of the Complaint in this action. [164]

XV.

That the invention of the Bourns' patent No. 2,515,981 has had wide commercial success.

XVI.

That the prior art relied upon by defendants does not disclose any instance of prior knowledge or invention of the combination disclosed in the Bourns' patent in suit, nor any solution of the problem in this art first solved by Marlan E. Bourns.

XVII.

That it required the exercise of inventive faculty to invent the combination defined by the claim of Letters Patent No. 2,515,981.

XVIII.

That the combination of elements defined by the claim of Letters Patent No. 2,515,981 produces a result in excess of the accumulation of results of the individual elements.

XIX.

That the prior patents relied upon by the defendants to anticipate or limit the claims of the Letters Patent in suit do not teach a solution of the problem first successfully solved by Marlan E. Bourns.

XX.

That the claim of the Bourns' patent in suit, No. 2,515,981, defines an invention made by Marlan E. Bourns which overcame the problem existing in this art.

XXI.

That the defendants did not appropriate any trade secrets from plaintiff. [165]

XXII.

That there has been no confusion in the industry as to the source of instruments sold by defendants.

Conclusions of Law**I.**

The Letters Patent No. 2,515,981 was duly and

legally issued on July 18, 1950 upon the application of Marlan E. Bourns. That plaintiff, Marlan E. Bourns, is the owner of the entire right, title and interest in and to said Letters Patent.

II.

That Letters Patent No. 2,515,981 in suit is good and valid in law and that said patent and the claim thereof covers a new and meritorious invention.

III.

That defendant has infringed the claim of the Letters Patent in suit by the manufacture and sale of devices exemplified by Defendants' Exhibit I and Plate 6 of Plaintiff's Exhibit 3; Plate 9 of Plaintiff's Exhibit 3; Defendants' Exhibit U and Plate 11 of Plaintiff's Exhibit 3; Defendants' Exhibit T and Plate 14 of Plaintiff's Exhibit 3; Plaintiff's Exhibit 30 and Plate 17 of Plaintiff's Exhibit 3, and Plate 19 of Plaintiff's Exhibit 3, and Plate 20 of Plaintiff's Exhibit 3.

IV.

That plaintiff is entitled to a judgment for an injunction and accounting with costs as prayed for in the amended Complaint filed herein with respect to the first cause of action for patent infringement.

V.

That defendant has not competed unfairly with plaintiff.

VI.

That plaintiff recover nothing by the second cause of action for unfair competition.

Dated: September 8, 1954.

/s/ LEON R. YANKWICH,

United States District Judge. [167]

[Endorsed]: Lodged July 20, 1954.

[Endorsed]: Filed September 8, 1954.

In the United States District Court for the Southern District of California, Central Division

Civil Action No. 14764-Y.

Marlan E. Bourns, doing business under the fictitious firm name and style of Bourns Laboratories, Plaintiff, vs. Edcliff Instruments, Edmund W. Pitzer and Clifford Dillon, Defendants.

Edcliff Instruments, Edmund W. Pitzer and Clifford Dillon, Defendants and Counterclaimants, vs. Marlan E. Bourns, doing business under the fictitious firm name and style of Bourns Laboratories, Plaintiff and Defendant on Counterclaims, and Bourns Laboratories Instrument Sales Corporation and Bourns Position Instruments, Inc., Defendants on Counter-claims.

JUDGMENT

This cause having come on to be heard, and the Court having made and entered its Findings of Fact and Conclusions of Law pursuant to Rule 52

of the Rules of Civil Procedure, it is hereby adjudged and decreed as follows: [169]

1. That plaintiff is the owner of the entire right, title and interest in and to Letters Patent No. 2,515,981, granted July 18, 1950 to Marlan E. Bourns for adjustable resistors, together with all rights of action for infringement thereof.
2. That said Letters Patent No. 2,515,981 and the claim thereof, is good and valid in law.
3. That defendants have infringed Letters Patent No. 2,515,981, and the single claim thereof by the manufacture and sale of adjustable resistors as exemplified by Defendants' Exhibit I and Plate 6 of Plaintiff's Exhibit 3; Plate 9 of Plaintiff's Exhibit 3; Defendants' Exhibit U and Plate 11 of Plaintiff's Exhibit 3; Defendants' Exhibit T and Plate 14 of Plaintiff's Exhibit 3; Plaintiff's Exhibit 30 and Plate 17 of Plaintiff's Exhibit 3; Plate 19 of Plaintiff's Exhibit 3, and Plate 20 of Plaintiff's Exhibit 3.
4. That defendants have not competed unfairly with plaintiff.
5. That plaintiff herein have judgment on its amended Complaint for infringement of Letters Patent No. 2,515,981 as prayed for.
6. That plaintiff recover nothing by the second cause of action for unfair competition.
7. That defendants having abandoned its First Counterclaim claiming violation of the Anti-Trust Laws of the United States and having offered no evidence in support of said Counterclaim, the same is dismissed with prejudice. [170]

8. That defendants having abandoned its Second Counterclaim claiming unfair competition and having offered no evidence in support of said Counterclaim the same is dismissed with prejudice.
9. That defendants having abandoned its Third Counterclaim claiming mismarking under Section 50 of Title 35 of the U. S. Code and having offered no evidence in support of said Counterclaim, the same is dismissed with prejudice.
10. That defendants' Fourth Counterclaim for a declaratory judgment with respect to the validity and infringement of United States Letters Patent No. 2,515,981 is dismissed.
11. That pursuant to the agreement of the parties on pages 500 to 502 of the record all claims and counterclaims based upon Letters Patent No. 2,515,980 are dismissed without prejudice.
12. That a perpetual injunction be issued out of and under the seal of this Court restraining the defendants, its officers, agents, servants, employees and those persons, companies or corporations in active concert or participation with them, from using, or causing to be used, or offering, or threatening to use, or selling or offering for sale, or threatening to sell or contribute to the use of the combination patented in and by the said Letters Patent No. 2,515,981.
13. That plaintiff recover from defendants general damages which shall be due compensation for the making, using, or selling of the combination of the invention of the Letters Patent in suit, together

with such costs and interests as may be fixed by the Court. [171]

14. That plaintiff recover from said defendants the taxable costs of the plaintiff in this court and that the plaintiff shall have judgment and execution against the said defendants for said costs. Costs taxed at \$1,071.41.

Dated this 8th day of September, 1954.

/s/ LEON R. YANKWICH,
United States District Judge. [172]

[Endorsed]: Lodged July 20, 1954. Filed and entered September 8, 1954.

[Title of District Court and Cause.]

NOTICE OF APPEAL

To the Clerk of the Above Entitled Court and to the Plaintiff, Marlan E. Bourns and to Lyon & Lyon and Lewis E. Lyon, Esq., His Attorneys:

Notice is hereby given that defendants, Edcliff Instruments, [174] Edmund W. Pitzer, and Clifford Dillon, and each of them, appeal to the United States Court of Appeals for the Ninth Circuit, from those portions only of the Interlocutory Judgment and Decree entered in the above entitled action on September 8, 1954, in which it is adjudged and decreed:

- 1) That U. S. Patent No. 2,515,981 is valid;
- 2) That defendants, and each of them, have infringed said U. S. Patent No. 2,515,981 by the man-

ufacture and sale of the devices described in paragraph 3 of said Interlocutory Judgment;

3) That Counterclaim IV of the Amended Counterclaims for declaratory relief with respect to the validity and infringement of said U. S. Patent No. 2,515,981 be dismissed;

4) That a perpetual injunction be issued restraining said defendants from using, or causing to be used, or offering, or threatening to use, or selling or offering for sale, or threatening to sell, or contributing to the use of the combination patented in and by the said Letters Patent No. 2,515,981;

5) That plaintiff recover from defendants general damages as due compensation for the making, using or selling of the combination patented in and by U. S. Patent No. 2,515,981, together with costs and interests; and

6) That plaintiff recover the taxable costs in the within action.

Dated: October 6, 1954.

GIBSON, DUNN & CRUTCHER

/s/ By SAMUEL O. PRUITT, JR.

Attorneys for Defendants and
Counterclaimants. [175]

Receipt of Service attached. [176]

[Endorsed]: Filed October 6, 1954.

[Title of District Court and Cause.]

CERTIFICATE OF CLERK

I, Edmund L. Smith, Clerk of the United States District Court for the Southern District of California, do hereby certify that the foregoing pages numbered from 1 to 188, inclusive, contain the original Amended Complaint; Answer; Amended Counterclaims; Reply of Plaintiff to Counterclaims, etc.; Notice of Motion for a Partial Summary Judgment, etc.; Separate Affidavits of Raymond E. Bossarte, Leonard Comegys, Clifford Dillon (two), Clyde V. Grant, Jr., Marion J. Kruzic, Frederick E. MacArthur, Jr. (two), Edmund W. Pitzer, and John C. Warner; Memorandum in Opposition to Motion for Partial Summary Judgment; Defendants' Notice Under 35 U.S.C. 282; Opinion; Decision; Objections of Defendants to Plaintiff's Proposed Findings of Fact, Conclusions of Law and Judgment; Affidavit of J. E. Coates; Affidavit of Leonard Comegys; Affidavit of Walter J. Jason; Proposed Findings of Fact and Conclusions of Law; Proposed Interlocutory Judgment; Findings of Fact and Conclusions of Law; Judgment; Notice of Appeal; Designation of Record on Appeal and Stipulation re Designation of Record on Appeal and a full, true and correct copy of Minutes of the Court for February 15 and September 8, 1954 which, together with the original exhibits and Reporter's Transcript of Proceedings, transmitted

herewith, constitute the transcript of record on appeal to the United States Court of Appeals for the Ninth Circuit.

I further certify that my fees for preparing and certifying the foregoing record amount to \$2.00 which sum has been paid to me by appellants.

Witness my hand and the seal of said District Court this 12th day of November, A.D. 1954.

[Seal] EDMUND L. SMITH,
Clerk.

/s/ By THEODORE HOCKE,
Chief Deputy.

In the United States District Court for the Southern District of California, Central Division

No. 14,764-Y—Civil

MARLAN E. BOURNS, doing business under the fictitious firm name and style of BOURNS LABORATORIES, Plaintiff,
vs.

EDCLIFF INSTRUMENTS, EDMUND W. PITZER, and CLIFFORD DILLON, Defendants.

TRANSCRIPT OF PROCEEDINGS

Los Angeles, Calif., Tuesday, June 22, 1954

Honorable Leon R. Yankwich, Judge presiding.

Appearances: For the Plaintiff: Lyon & Lyon, by Lewis E. Lyon and R. Douglas Lyon, 811 W. 7th

St., Los Angeles 17, Calif. For the Defendants: Gibson, Dunn & Crutcher, by Samuel O. Pruitt, Jr., and Glenn Warner, 634 So. Spring St., Los Angeles 14, Calif., and Robert L. Parker, Jr., 595 East Colorado St., Pasadena 1, Calif. [1*]
* * * * *

Mr. Lewis E. Lyon: This, your Honor, is a patent case involving at the present time two letters patent, both of which issue on this same basic application filed in the Patent Office, one of the patents being a divisional patent granted upon a divisional application.

At this time I will offer in evidence and give the court an extra copy of the two soft copies of the letters patent in suit.

The Court: All right. They may be received.

Mr. Lewis E. Lyon: I am offering as Plaintiff's Exhibit 1 the Marlan E. Bourns patent No. 2,515,980, issued July 18, 1950.

The Clerk: 1 in evidence.

(The document referred to was marked Plaintiff's Exhibit 1, and was received in evidence.)

[See Book of Exhibits.]

Mr. Lewis E. Lyon: Here is the extra copy for the court. And I offer the Marlan E. Bourns patent No. 2,515,981, also issued July 18, 1950, as Plaintiff's Exhibit No. 2, supplying an extra copy also of that patent for the convenience of the court.

The Clerk: 2 in evidence.

* Page numbers appearing at top of page of original Reporter's Transcript of Record.

(The document referred to was marked Plaintiff's Exhibit 2, and was received in evidence.)

[See Book of Exhibits.]

Mr. Lewis E. Lyon: So the court may have before it an illustration of the structures alleged to infringe the two patents in suit, I have prepared colored drawings of the defendants' and plaintiff's structures of the patent in suit, in which the claims which will be relied upon of the two patents are broken down, and I will offer at this time as Plaintiff's Exhibit 3 the book as thus described, subject to the evidence with respect to its preparation, it being offered for the purpose of illustrating the plaintiff's position in this matter. And I have an extra copy of that book, Plaintiff's Exhibit 3, for the court.

Mr. Pruitt: Your Honor, I interpose the objection at this time tentatively that we do not stipulate that the illustrations properly depict either the patent illustration, or what is shown, but we have no objection to its being offered for identification purposes at this time.

The Court: The object is merely to illustrate counsel's [4] conception of the patent, and, as such, is admissible just like a summary from books. We do not have to accept the implications. They merely illustrate what they conceive the claims to be and what the infringement is.

Mr. Pruitt: I certainly have no objection if it is offered for that purpose, your Honor.

The Court: All right. Overruled. It may be received.

The Clerk: Plaintiff's Exhibit 3 in evidence.

(The document referred to was marked Plaintiff's Exhibit 3, and was received in evidence.)

Mr. Lewis E. Lyon: The patents in this suit relate to devices which are commonly referred to and will be here referred to as potentiometers, although the two patents in suit are entitled adjustable resistors.

In order that the court may perhaps have a better visual understanding of the structures of the patent, I am going to present here at the present time one of the earliest models of the potentiometer which was constructed by the plaintiff and for the plaintiff by the defendant, Mr. Pitzer. This model closely approximates—

The Court: Tell me—I have forgotten, gentlemen, even though this matter has been before me on several occasions, in what field these are used.

Mr. Lewis E. Lyon: I will get to that. I just want to get the model before you. [5]

The principal field of these structures at the present time, as the evidence will develop, is in the field of guided missiles or aeronautics or airplane structures. They are variable resistors which enable certain instruments or certain elements to be properly related to the electrical circuit of those devices in use, and they are very exact instruments, as the evidence will bring out.

This model, which is like Figure 6 of Exhibit 1 or 2, the drawings of the two patents being the same, except this device is a square shaft device, and the patent in suit in Figure 6 shows a round

shaft. I will ask that this model, for the purpose of illustrating the structures, be received as Plaintiff's Exhibit 4.

The Clerk: Is this admitted, your Honor?

The Court: It may be received.

The Clerk: 4 in evidence.

(The document referred to was marked Plaintiff's Exhibit 4, and was received in evidence.)

Mr. Pruitt: Do you have any objection if we examine the internal structure of that?

Mr. Lewis E. Lyon: None whatsoever at any time. If your Honor will refer to plate 10 of the illustrative colored book, Exhibit 3, you will find there pictured another of the potentiometers.

So the court may have a correct understanding of the relative size of these devices, as they are somewhat blown up in these illustrations for the purpose of illustration, I am going to present at this time an additional model, this being a model of the structure shown on plate 10 of Exhibit 3, as Plaintiff's Exhibit 5.

The Clerk: Is this admitted, your Honor?

The Court: It may be admitted.

The Clerk: Plaintiff's 5 in evidence.

(The instrument referred to was marked Plaintiff's Exhibit 5, and was received in evidence.)

Mr. Lewis E. Lyon: There have been subpoenaed and requested certain early models of the earliest models of potentiometers made by the plaintiff Mr. Bourns, and, also, one of those first models has a transparent cover on it, which enables the court to

see better the internal structure of the device. I am going to present and offer in evidence at this time what I understand is the first linear motion potentiometer made by the plaintiff, Mr. Bourns, as Plaintiff's Exhibit 6. [7]

The Clerk: Is this admitted, your Honor?

The Court: It may be received.

The Clerk: 6 in evidence.

(The instrument referred to was marked Plaintiff's Exhibit 6, and was received in evidence.)

Mr. Lewis E. Lyon: Your Honor will undoubtedly remember that in elementary physics one of the demonstrations first made of the phenomena of the transfer of electrical current was the fact that an incandescent lamp was hooked up with a battery or source of electric current, and in the wires connected with the lamp there was inserted a variable resistance, and that variable resistance was moved back and forth, and when you did the light got dimmer as more resistance was put in the circuit, and the light got brighter as the resistance in the circuit was lessened. That was a variable resistor. The problem which here confronted the plaintiff, however, was a problem of a great deal different magnitude than that. The plaintiff, Mr. Bourns, is an engineer, trained in electrical engineering, and was manufacturing certain devices when there was presented to him the problem which existed in the art of guided missiles in aircraft construction of producing a potentiometer which was a repeatable potentiometer. Now, by "repeatable", and taking one

of these models as an example, a structure which was accurate to the nth degree, so that if this shaft of this model Exhibit 6, which I have in my hand, is moved to a certain position, it depended upon the instrumentality to which it was connected, that there would at all times, when you returned to that position, be exactly the same resistance in that electric circuit. Not a matter of variation, but exactly the same, so that the instrument was repeatable and accurate to the degree required in order to carry out the desired operations in aircraft or guided missile operation and construction.

If your Honor will refer to Figure 6, which I believe is the easiest of the figures to see, of either Plaintiff's Exhibit 1 or 2, you will find therein pictured the potentiometer or variable resistance of which we are speaking. Now, that variable resistance or potentiometer includes a body or base, which is therein pictured as the lower portion, I believe numbered 61. Secured to that base is a cover or top, which in that figure is numbered 72.

The Court: What sort of metal is this constructed of?

Mr. Lewis E. Lyon: That is constructed of plastic, aluminum or other suitable material, in order that the exact refinements of construction may be had. It is not necessarily a metal.

The Court: Is it material whether that will be or will not be a conductor?

Mr. Lewis E. Lyon: It does not make any difference the way this structure is made, as long as there is proper [9] insulation, as for example in Exhibit

5 structure the base is of aluminum. In Exhibit 6 or 4 the base is aluminum, and the same is true of the Exhibit 5.

Mounted on that base is what is usually an insulated material, a cover 72, which is usually formed of a suitable nonconductive structure or plastic material or bakelite, something of that character, which is generally nonconductive. Now, in order to provide the variable resistance there is a coil of wire shown in Figure 6, which is indicated at 73, and that coil of wire is adapted to be contacted with a spring contact plate 69, and that spring contact plate is carried as the patent states upon a post 66, which is secured to an operating shaft 64. Now, as you move the shaft 64 in or out of the structure, you slide the contact plate 69 along so that it engages different turns of the wire of the coil 73 along the length of that coil, and the problem is to be sure that you always return to precisely the same point on the same turn. And although these pictures are rather large, the wire of that coil may be and is at many times extremely fine, as fine as human hair, in order that you get this exact adjustment, and you use a contact button in contact with that wire so that you repeat that position.

Now, one of the important problems which was faced in this structure was to build a structure in which you could be certain that the part stayed in permanent relation one to [10] the other. The coil of wire is at its contact surface a curved surface, so that the wires are wound around, and where the contact button of the contact plate or the curved

surface of the contact plate engages the wire there was one curved surface against another. That requires that you maintain these parts in definite set relations, so that you have the operating shaft 64, the post 66, the contact plate 69 with its curved surface engaging a curved portion of the coil.

Now, if you have rotation or relative movement of those parts in that combination so that the tendency is for the contact curved surface of the contact plate 69 to engage the wire at variable points around its curved surface, you will see that you could not return to precisely the same point, and you would not have a repeatable instrument, one which would be of the degree of accuracy required, and it is to the production of such a repeatable instrument where the parts are so oriented as to make this repetition possible that the claims of these patents are related. [11]

Now, Mr. Bourns started into this field, as I stated, not many years ago. Then this problem was presented to him by Consolidated Vultee in the guided missile field, he at that time being in the business of manufacturing another structure, and they pointed out to him the fact that their program was failing considerably because there was no instrument which they could obtain upon the market which would solve the problem presented by these missiles, and their structure and the failure of the potentiometers to operate within the precision required.

Mr. Bourns said, "I will undertake to make such a structure for you."

So we here have perhaps as one of the issues of this case an allegation that Mr. Bourns' own early activities antedate his own patent, because Mr. Bourns undertook an experimental contract to build a structure for the Consolidated Vultee on their one requirement, "What we want you to build is a potentiometer to the precision of five-hundredths of a degree accuracy."

Now, this question of anticipation of a patent by a person's own activity is nothing new to the patent field.

The Court: Let's confine ourselves here. You know by now that I do not like the old-fashioned opening statement, which was really an argument. Let's confine ourselves to the facts you are going to prove, then swear in the witnesses, [12] and then argue the case later.

Mr. Lewis E. Lyon: Yes, your Honor. The only thing I was trying to place before the court was as to what the issues are.

The Court: That is all right. I know what anticipation is, so let's confine ourselves to the issues, and then let's have the proof.

Mr. Lewis E. Lyon: I don't want to argue the case either, your Honor, at the present time.

The Court: All right.

Mr. Lewis E. Lyon: I want to get to the court an understanding of the structures, and an understanding of the patents, and then I will put on the evidence.

The Court: All right.

Mr. Lewis E. Lyon: I believe that I have got

before the court at the present time the structures, the patents, and our position, as graphically shown in Exhibit 3. * * * * [13]

The Court: All right. I will hear from counsel.

The Clerk: Mr. Samuel Pruitt.

Mr. Pruitt: May it please the court: Your Honor, we have filed a rather extensive pretrial memorandum, which I apologize for in saying that it includes quite a bit of argument.

The Court: I showed it to a visiting judge, and told him of the interpretation put on the word "memorandum." It is 156 pages long.

Mr. Pruitt: I apologize for the weight and length of it, but I thought it necessary to put before the court the lack of invention in the subject patents, and the lack of infringement of the numerous devices which are claimed to infringe, to form a pertinent record before the court as the occasion arises.

The Court: All right.

Mr. Pruitt: I will be quite brief. Mr. Lyon has pointed out that there are two patents in issue.

Now, in the filing of their pretrial memorandum last week, Monday of last week, plaintiff states that the model C type instrument manufactured by the defendants is not claimed to infringe the '980 patent, and I am not advised of any other instrument that has ever been manufactured by the defendants which is claimed to infringe the '980 patent. [17] So, so far as I know, the '980 patent is not involved in the infringement claim of the patents.

I have discussed this matter with Mr. Lyon, and I expect to show him drawings of models of certain

instruments to satisfy him as to whether or not he intends to press any claim under the '980 patent, and I think there is some likelihood that that patent will be eliminated from the case.

The Court: Unless, it being a split patent, and there is only one claim in evidence, they are so tied that they have to be considered together in order to understand the situation.

Mr. Pruitt: I think that is clearly true, your Honor, that especially the file wrapper of the '980 patent is highly material, we think, to the proper construction of the single claim of the divisional patent.

With respect to the art which Mr. Lyon referred to, briefly, I think our evidence will show that long prior to the filing date of Mr. Bourns' invention there were manufactured in this country, and there was well known in the art that there were being manufactured accurate wire-wound resistors, both used as adjustable resistors, or as potentiometers, and I think the evidence will further show that the accuracy and the repeatability of the variable resistance depends primarily and almost wholly on the quality of the resistance winding.

The Court: Tell me what function they perform in the field. [18]

Mr. Pruitt: As I understand it, your Honor——

The Court: To say they are resistors is a little general. What do they do? Do they help stabilize something in the air, or what?

Mr. Pruitt: As I understand it, the primary use of the instruments in suit is to provide telemetering

information by transferring an electrical signal based upon the amount of resistance in a circuit, to determine the amount of mechanical movement that is indicated by this electrical change in resistance. I must confess that I am not personally familiar with the exact use to which these instruments are being put by the persons engaged in the guided missile program.

I think, generally speaking, they are used for telemetering purposes.

The Court: All right.

Mr. Pruitt: The prior art will not only show, I think, that the accurate resistor or potentiometer was well known in the art at the time of the filing of the application for this patent, but that the various elements of the claim of the '981 patent were shown in various eastern patents as of that date, and not only were the individual elements shown, but we think the combination itself was shown in at least three of the patents relied upon by the defendants as prior art.

We have filed our pretrial memorandum, and Exhibit C, [19] which shows copies of those patents relied upon as prior art, and at the proper time I will introduce these documents into the record.

The Court: I notice in patent '980 there is quite a number of references cited, and in patent '981 only two are cited.

Mr. Pruitt: True, your Honor.

The Court: Some are the same. Rubinstein and Batcheller are cited. Have you any patents in addition to those cited there? [20]

Mr. Pruitt: Yes, your Honor, we rely particularly upon a patent to W. E. Schauer, being No. 2,280,305, application filed April—

The Court: Is that 2,280,385?

Mr. Pruitt: '305. That is shown in Exhibit C, No. 2 of the exhibits filed with our pretrial memorandum.

The Court: All right. Just so I get the issues. Is that your best reference?

Mr. Pruitt: We rely just as much, your Honor, on the Rubinstein patent, which was cited by the Patent Office. And there is another reference, W. J. Thayer, which is No. 3 in our exhibit which we rely on.

The Court: All right. As long as we don't roam all over the field of mechanical and electro sciences.

Mr. Pruitt: No, your Honor, we hope to confine it to the issues.

In connection with our theory of lack of infringement, or our lack of invention argument, and our non-infringement argument, we think that the most that the Bourns '981 claim can cover is the particular structural relationship between his round shaft reciprocating in a groove and the transversely mounted post which prevented rotation of the shaft, and thus maintain contact between the contract arms and the resistance element. We think that that particular feature is something that a mechanic skilled in the art could devise in the light [21] of the prior art. And we further think that none of the defendants' devices incorporate that particular structure. * * * * * [22]

There is one other issue, which was not mentioned by Mr. Lyon, and that is in defense of the infringement claims we have set forth the fact, and we will offer evidence to establish that fact, that substantially all of the accused devices have been sold either directly to the United States Government or to the contractors and subcontractors of the United States Government. I think as of now all but 20 devices have been so sold.

We expect to prove that the contract under which these instruments were purchased by these persons had a standard contract clause called the authorization and consent clause, which announces in advance the Government's consent to the purchase of claimed infringing devices. We expect to prove, also, that substantially all of the devices were incorporated [25] into some other device, which was ultimately delivered and accepted by the United States Government.

We also expect to prove that in the case of the largest customers of defendants, and I think—this is from memory, but I think it will cover approximately 80 per cent of the devices sold—that the contractors wrote to the proper official of United States Government setting forth the claimed infringement, and requesting specific authorization by the Government to purchase the devices from the defendants, and we will—

The Court: What bearing does that have? The Government can't give you authorization to infringe somebody else's patent.

Mr. Pruitt: My point is under Section 1498 of

Title 28, it provides that if the Government has given its authorization and consent to the purchase of devices which are accused devices in a patent infringement suit, the patentee's sole remedy is in the Court of Claims, and this court lacks jurisdiction to determine damages or injunction for infringement to the extent that the devices were sold to the Government, so it is one of the important issues in this case, your Honor, because it relates to the jurisdiction of this court.

As I was saying, we expect to introduce the original letters from the proper contracting officer of the Government specifically authorizing the purchase of the devices from [26] the defendants.

The Court: That won't oust the jurisdiction of this court from passing on invalidity or unfair competition. It would only be a question of damages. I might not be able to award damages, but I could make an interlocutory decree finding infringement, finding unfair competition, and then refer it to the Court of Claims for adjudication of damages, instead of a master. See, I am very jealous of the jurisdiction of this court, and there have been many occasions when either courts or Congress have tried to oust me when I wouldn't be ousted. I won out recently when the whole Congress of the United States, the Senate and House, tried to oust me from jurisdiction, but they didn't know as much as I did about the case. And I tried the case and decided it, and now they have released the Attorney General, and he is defending my judgment. So it just shows you how jealous I am of the jurisdiction.

Mr. Pruitt: I should have pointed out, in addition to the fact you mentioned, that the defendants have counterclaimed for declaratory relief, asking that the court adjudicate the validity or invalidity, and the infringement or non-infringement.

The Court: Yes, we can do it regardless of that section. We will take a short recess.

* * * * [27]

MARLAN E. BOURNS

the plaintiff herein, called as a witness in his own behalf, having been first duly sworn, was examined and testified as follows:

Direct Examination

The Clerk: What is your name, please?

The Witness: Marlan E. Bourns.

The Clerk: Thank you.

Q. By Mr. Lyon: Where do you reside, Mr. Bourns?

A. 2482 Carlton Place, Riverside.

Q. What is your occupation?

A. We manufacture electrical instruments.

Q. How long have you been engaged in that business?

A. Since the fall of 1946, or the early winter.

Q. What is your training?

A. Physics major, with many courses in the engineering college of the University of Michigan.

Q. After leaving Michigan, or during the time you were at Michigan, what did you do in following the electrical engineering profession?

(Testimony of Marlan E. Bourns.)

The Court: By physics major, I assume you mean you got a Bachelor of Science degree? [28]

The Witness: That is correct; in physics.

The Court: Majoring in physics?

The Witness: Correct.

Q. By Mr. Lyon: The question is: After or during the time you were still in Michigan, the University of Michigan, what did you do in following the electrical engineering profession?

A. A few weeks prior to graduation I accepted full time employment by the University of Michigan in engineering research on a secret electronic project.

Q. Ultimately determined to be what project?

A. I am frankly not sure whether I am in a position to say or not. It is one of the main top secret projects of the last war.

Mr. Lyon: It has been publicized since then.

The Court: It isn't important, and I think we would rather not have it. We are not senators, Mr. Bourns, so we do not assume the right to have you disclose secrets, and that is true except when the Government brings a law suit. If the Government brings a law suit, then we tell them, "You didn't need to bring it unless you wanted to disclose the contract." For instance, they brought a case recently and they didn't want to disclose a contract, and I said, "All right, dismiss your law suit if you don't want to disclose it." But this is not of any importance, and I will relieve you of [29] the necessity to answer.

(Testimony of Marlan E. Bourns.)

Q. By Mr. Lyon: All right. How long did you continue in the pursuit of that research problem?

A. Following my employment by the University of Michigan, and during that employment, in fact, I was sent to Cal Tech on the same project, and worked on the University of Michigan payroll at Cal Tech for several months, and thereupon was transferred to Cal Tech's payroll.

Cal Tech was working on this project with the Naval Ordnance Test Station, and with General Tire & Rubber, so that employment by all three groups on the same basic job followed.

Q. The question was: How long did that last?

A. About a year and a half at the University of Michigan, as I recall, and approximately a year with the other three organizations in California.

Q. All right. Following the completion of your connection with that job, what did you do in the electrical engineering field, if anything?

A. I intended to go into business for myself, making electronic devices, and once considered making oscilloscopes or telemetering transmitters on which a patent was applied for, and various electronic devices of that type.

Q. You say you intended to. Did something interrupt those intentions? [30]

A. Well, actually we needed some money to keep going, and it was apparent that the electronic devices would take considerable development, so it appeared that it would be of more immediate mone-

(Testimony of Marlan E. Bourns.)

tary value to solve a problem which I had become familiar with through Convair.

Q. And what problem was that?

A. Convair was having a great amount of difficulty with a vane unit they were using on their missile.

Mr. Pruitt: Just a minute. Your Honor, I object to this as testimony which is not within the knowledge of the witness unless he had some conversation.

The Court: He stated he became familiar with it, and he puts it in that way. It came to your attention?

The Witness: That is correct.

Q. By Mr. Lyon: By Convair, you mean whom?

A. Consolidated Vultee Aircraft Corporation, and the Downey plant, specifically.

The Court: In patent cases in many instances it is permitted that the witness who claims invention can state the problem that existed in the industry, or in the branch of knowledge, and it isn't hearsay provided he himself was aware of the problem. Whether he came to it by personal experiments or whether people with whom he dealt called it to his attention becomes important because the patentability may depend upon the existence of the problem and the manner in which he [31] solved it. An invention may arise, if he solves it in a manner which was not apparent to anyone before. And so we have in all these cases the problem which

(Testimony of Marlan E. Bourns.)

confronted the inventor, unless you deal with a simple mechanical thing.

All right, go ahead.

Q. By Mr. Lyon: You say you became acquainted with this problem at Vultee, or at Consolidated Vultee, Convair. And what was the problem?

A. It was the desire of Convair to measure the angle of attack and the angle of the yaw of a missile as it was flying through the air, and in order to do this they had previously employed a rather complex device, with an open case, as I recall, on which a vane was mounted to a gear, and a gear reduction was provided from that assembly to a rotary potentiometer. They stated that a great deal of difficulty had been encountered in backlash of the gears and through malfunction of the pot, and failure of repeatability, plus excessive friction.

Q. Now, you used a word there, Mr. Bourns, "pot." What did you mean by that word?

A. "Pot" is quite often used in engineering terminology as an abbreviation for potentiometer.

Q. So that when you use, as you probably will in your testimony, the word "pot," you are referring to potentiometer?

A. That is correct, yes. I probably can't help it. [32]

Q. All right. Now, you stated that they were using a rotary potentiometer at Convair. Will you elaborate on that? What were they using?

A. I believe they were using a Giannini po-

(Testimony of Marlan E. Bourns.)

tentiometer known by the trade name of Micro-torque.

Q. Now, how was that, in accordance with your knowledge, connected in this guided missile and this instrument?

A. I believe the shaft of the Microtorque pot had a small gear, and the vane had a large gear, and the two gears operated together, so that movement of the vane caused movement of the small rotary pot.

Q. What was their difficulty or what was their problem of that use?

A. I believe, in addition to telemetering, it was my impression they were also using this device to control the actual flight of the missile, and it was very important that this device be exactly accurate, or the entire missile would not have a successful flight.

Q. Was there or was there not a problem stated to you by Consolidated Vultee with respect to this particular use of a potentiometer?

A. Consolidated personnel felt that this potentiometer arrangement was definitely troublesome in their device, and in their missile, and was one of the major causes of the failure of the missiles at that time. [33]

Q. Did they state to you that they were having failures in the missile at that time?

A. That was my impression, yes, sir.

Q. And they stated to you that one of the

(Testimony of Marlan E. Bourns.)

sources of the difficulty was the potentiometers; is that correct?

A. That was one of their main sources of difficulty, yes. In fact, it was generally known to the people in the missile field that pickups or transducers to get information about the flight of the missile, or to control the flight of the missile were the major drawbacks to the success of the missile projects at that time.

Q. Was this somewhat a secret project with Consolidated Vultee, this guided missile project?

A. I believe it was. I had top secret clearance for one project, and I believe it extended over that period of time also.

Q. I see. It was because of that top secret clearance that you were able to obtain this information; is that correct?

A. I believe that would be correct.

Q. Now, did you discuss with anyone at Consolidated Vultee any of your thought that you would endeavor to solve their problem for them?

A. I believe I may have initially indicated that I would like to go into the electronic field, and my original [34] thought was to purchase a trailer and to endeavor to install telemetering equipment on the missiles and pick up the records in this trailer, and provide the company with a complete record of the flight.

Q. Now, when this problem in the potentiometer in the guided missile was presented to you, did you indicate to Consolidated Vultee, or their engineer-

(Testimony of Marlan E. Bourns.)

ing staff, that you would endeavor to solve their problem?

A. It was apparent the device they were using was unnecessarily complex and crude, and I proceeded to have a job shop make a model instrument to my design, which I thought would be a drastic improvement on the prior device.

Q. Well, then, whether you stated to them or not that you would try to solve the problem, you set out to solve the problem; is that correct?

A. That is right.

Q. Now, in doing that, what did you do in trying to solve this problem? What did you do?

A. Well, basically, I worked out various sketches of my own, which seemed to be a more direct approach to the problem, and came up with an entirely different device, which consisted of only one moving part, and which was much more accurate and repeatable, and appeared to me to be a great improvement in solving this problem.

Q. Now, you state that you first had some job shop [35] make for you a vane type instrument according to your design. What was the name of that shop?

A. Instrument Development Company.

Q. Where was they located?

A. Pasadena.

Q. And who was employed by that company?

A. As I recall, a man by the name of Percy Scaling and Charles Edler were the two owners of the company.

(Testimony of Marlan E. Bourns.)

Q. And at that place did you contact any particular individuals who worked on this problem?

A. Primarily, Percy Scaling.

Q. Now, I place before you a device, and ask you what that is?

A. This device, except for the vane and various other minor alterations which were made subsequently was the first vane unit that was made for me by Instrument Development.

Q. Now, I would like to have you, if you can, take that cover off and explain to the court,—you say you developed a device with only one moving part. I would like to have you just explain to the court what you meant by that?

A. Does anyone have a screwdriver?

(The tool was handed to the witness.)

Mr. Lewis E. Lyon: In the meantime I will ask that this device be marked for identification as Plaintiff's Exhibit next in order. [36]

The Clerk: Plaintiff's Exhibit 7, marked for identification only.

Q. By Mr. Lyon: Now, you have removed from Exhibit 7, for identification, a portion of it. What portion of that is it? Is that the base?

A. The sheetmetal lid.

(The device referred to was marked Plaintiff's Exhibit 7, for identification.)

Q. That is the lid; all right.

A. This device consists of only one moving part, and it is counterbalanced in such a manner that the portion on one side of the bearings is equal to

(Testimony of Marlan E. Bourns.)

the moment of inertia, the portion on the other side, and one of the major problems they had was getting adequate accuracy and the figure of .05 degrees was mentioned, which is only three minutes of arc. So the reason this first device was so long was to enable me to put in a long enough element in that arc to provide the accuracy that they said was required of this instrument, in view of the size of the wiring. You can see that the wire is extremely small.

The Court: Like a hair.

The Witness: That is right.

Q. By Mr. Lewis E. Lyon: Now, will you just describe this instrument and its operation? Describe the whole instrument, and how it operates, and what it does. Let's [37] not assume that anybody has any knowledge of what a potentiometer is in any way.

A. Well, the device is mounted in a missile or airplane in such a manner that the vane protrudes outside the missile through a hole into the slip-stream, and one of the features of this unit, in order to enable that to be done, was a V-shaped device here, which permits the vane to be removed and reassembled with no misalignment. That, too, was said to be one of the major problems of the other device. It was not a satisfactory way of removing the vane and replacing it in exactly the previous manner, so that the calibration originally obtained may not be accurate.

Then, in accordance with the variation of the

(Testimony of Marlan E. Bourns.)

missile relative to the airstream, this arm moved along this resistance element, and by attaching a battery across the two end terminals of the potentiometer a varying voltage may be obtained from the wiper. This voltage is obtained off the electrical element going through this contact and hence to this other contact and hence to this plate which is tied to this center terminal.

Q. What was that variable voltage or that variation in voltage used for in this problem? What did we accomplish by it?

A. I believe it was used for one thing, for telemetering purposes, to get information about the flight of the missile, [38] and it is also my impression that it also may have been used to actually control the flight of the missile through several mechanism devices which actuated the fins and flaps of the missile, in accordance with information picked up.

The Court: What does a telemeter achieve in a guided missile?

The Witness: A telemeter is simply a radio transmitter into which the varying voltage from this device can be fed, and then this radio signal is picked up on the ground with a receiver and the output is recorded, so that any change in the flight of the missile can be later obtained by inspection of the tape.

The Court: It is in reverse order. In other words, it is a signal from the missile?

The Witness: Right.

(Testimony of Marlan E. Bourns.)

The Court: An automatic signal from the missile—

The Witness: Continuous.

The Court: —to the ground?

The Witness: Right. And that occurs all the time the missile is in flight, to indicate all the functioning of the missile. Various things they are interested in, for instance, air pressure, and angle of yaw and angle of attack, and the movement of various control surfaces and various valves which operate the missile, and also altitude and air speeds.

Q. By Mr. Lewis E. Lyon: All right. Are those variations [39] which may be of wide range or are they variations they are trying to record of rather slight magnitude, or may they be both?

A. Well, actually, they are both, which is a part of the problem. In some cases the variations are rather great, so that the total excursion of the vane in this case needs to be rather great, but, on the other hand, it is desired to pick up rather small changes when the missile reaches a very high speed.

Mr. Lewis E. Lyon: At this time I will offer in evidence as a part of this witness' testimony the Exhibit 7, for identification, heretofore so marked, as Exhibit 7.

Mr. Pruitt: May I see it?

Mr. Lewis E. Lyon: Yes. While it is open, counsel for the defendants might like to examine it.

The Clerk: This has been offered, your Honor.

The Court: It may be received.

The Clerk: 7 in evidence.

(Testimony of Marlan E. Bourns.)

(The device, heretofore marked Plaintiff's Exhibit 7, for identification, was received in evidence.)

Q. By Mr. Lewis E. Lyon: After this Exhibit 7, this vane type potentiometer was constructed for you, what did you do with it?

A. I took the unit down to Convair, and showed them my approach to the problem of measuring the angle of yaw and [40] angle of attack.

Q. When they inspected this unit, what did they say?

A. They said it felt like a boat anchor, because it was so heavy, and it was so big that it was ridiculous in their cramped quarters, in their opinion, and I pointed out that it was only because of the extreme accuracy that they had said was required that the thing was as large as it is, and that it could be half as small if they would permit half the accuracy. [41]

Q. Well, did they ever permit half the accuracy?

A. I think they still wanted the accuracy. We endeavored to use smaller wire in the elements and compromise generally in the interest of making the size more reasonable. They also objected to the first vane as being, looking like the rudder of a boat.

Q. Well, as a result of this demonstration did Consolidated Vultee commission you to make an experimental device for them?

A. No, not as the result of this particular one. I then brought the unit back to Instrument Development and had them do considerable alteration. In

(Testimony of Marlan E. Bourns.)

the original unit, rather than the second contact and the little silver plate I had a flexible lead wire running from the moving arm to the center terminal, and it was found that that introduced far too much torque in the system, and did not permit free operation, so that was replaced.

Then mounting holes were provided by means of some plate nuts, and the vane was changed.

Q. Well, then, did you make a second instrument?

A. Well, I made modifications on the first one and then took it back to show them.

Q. And then you took the modified instrument back and did they accept that?

A. No. It was still too big. [42]

Q. Still too big?

A. Right. In the meantime I had worked out on the other ideas for making the unit smaller and easier to produce, and better generally.

Q. And did you produce the second instrument?

A. Yes, I did, I had Instrument Development make another entirely different instrument.

Q. I hand you another instrument of the vane type, which I will ask be marked Exhibit 8 for identification. And I am removing from this instrument your identification tag, Mr. Warner, which has your initials on it, being one that I believe you put your identification on sometime before, or whosoever's identification mark it was I am taking it off at the present time. And I ask that it be marked Exhibit 8 for identification.

(Testimony of Marlan E. Bourns.)

The Clerk: 8 marked for identification only.

(The exhibit referred to was marked Plaintiff's Exhibit 8 for identification.)

Q. By Mr. Lewis E. Lyon: I hand you this device Exhibit 8 for identification and ask you if you can tell me what that is, and if you will do so, please?

A. It is a model of a vane potentiometer.

Q. Well, does this have relation to this second device that you say you manufactured?

A. It isn't the second device, I don't believe, but [43] it is similar to it.

Q. It is not the second device?

A. No, it is not.

Q. Do you have the second device?

A. Yes, sir, I believe it is there.

Q. Will you go see if you can find it?

If I marked the wrong one I don't want to do that. Now, you have produced from a box a third device. I will ask that this be marked Exhibit 9 for identification.

The Clerk: 9 marked for identification only.

(The exhibit referred to was marked Plaintiff's Exhibit 9 for identification.)

Q. I hand you the device that you have produced, Exhibit 9 for identification, and I will ask you to describe this instrument the same as you did with respect to Exhibit 7, taking it apart, if necessary, to demonstrate it, although it has a transparent cover on it.

A. I believe the operation can be seen fairly

(Testimony of Marlan E. Bourns.)

well through the transparent cover. This unit incorporates two ball bearings, one mounted just inside this wall and one mounted inside this wall, and to those ball bearings is affixed an arm, which has an insulating portion, and to that arm a resilient contact plate is affixed. One end of that plate rides on this plate back here, which is tied to the center contact, and these other two terminals are tied to the two ends of the [44] resistance element. The use of ball bearings was a major improvement over the first device, inasmuch as the friction was greatly reduced. And this contact was brought as near as feasible to the center of the shaft, so that friction from the second contact would be a minimum.

The aligning device was slightly altered. There is a round pin which fits into a V-shaped groove in the vane so each time the vane is installed on the instrument it would be exactly aligned, as it was before it was removed. This permits installation of the device inside the missile with the vane on the outside, without losing the calibration.

The Court: You also got rid of the boat?

The Witness: Yes, somewhat, although it is fairly large. We put tap mounting holes on all surfaces. We didn't know where they would mount it, so we put it on all sides.

Q. By Mr. Lewis E. Lyon: Was this second device, Exhibit 9 for identification, exhibited to Consolidated Vultee? A. Yes, it was.

Q. Did they accept that one?

A. No, they didn't accept this one either. How-

(Testimony of Marlan E. Bourns.)
ever, they thought it was a big improvement over
the other.

Q. Did they have any specific criticism of this?

A. I don't recall any specific criticism. I think possibly the total travel of this instrument was felt to be [45] too small for their application.

Q. By "total travel" you mean what?

A. Angle of arc through which the device operates.

Q. All right. Now, as a result of this instrument did they commission you to do anything?

A. Yes, they did issue a purchase order, which requested that I produce five vane instruments, and I believe the only thing specified on the order was that they must have an accuracy of plus or minus .05 degrees.

Q. Have you that purchase order in your records here? I believe you have it.

A. I have a copy of it. I don't believe I have the original.

Q. What is it, a photostatic copy?

A. Yes.

Q. Will you produce that photostatic copy, please?

Mr. Lewis E. Lyon: I will offer the device heretofore marked for identification in evidence as Exhibit 9.

The Court: It may be received.

The Clerk: 9 in evidence.

(The exhibit referred to was marked Plaintiff's Exhibit 9, and was received in evidence.)

(Testimony of Marlan E. Bourns.)

Mr. Pruitt: I note this says "Exhibit A attached thereto"; is that available?

The Witness: Yes. [46]

Lewis E. Lyon: Yes. Let's find out what Exhibit A was, and get this all together.

Q. By Mr. Lewis E. Lyon: You have produced two sheets, in response to the interrogation, which I will ask be marked as Exhibits 10-A and -B, 10-A being the purchase order, and 10-B being that instrument stated to be Exhibit A to the purchase order. Do you have any question about these being photostatic copies?

Mr. Pruitt: I don't at present, Mr. Lyon, but I regret that I don't have my copies here to check them. May I reserve the right to correct them?

Mr. Lewis E. Lyon: Certainly.

The Court: They will be received subject to that reservation.

The Clerk: 10-A and 10-B in evidence.

(The exhibits referred to were marked Plaintiff's Exhibits 10-A and 10-B, and were received in evidence.)

[See Book of Exhibits.]

Q. By Lewis E. Lyon: I hand you Exhibits 10-A and 10-B, and ask you if these are the two devices or instruments received by you together and which constituted a purchase order, is that correct?

A. Yes.

Q. Was there any known specifications of any device to be manufactured in accordance with that purchase order? [47]

(Testimony of Marlan E. Bourns.)

A. No, there wasn't. In fact, when the purchasing department of Convair first called on the phone, I recall that he asked what our terms of sale were, and I said, "Well, I don't know what you mean by terms of sale." He said, "Do you give one per cent in 10 days, or what?"

I said, "What do the other folks do?"

"Most of them give one per cent in 10 days."

So I said, "Okay, we will do that, too."

Q. You had exhibited these particular devices to Consolidated Vultee, that is Exhibit 7 and Exhibit 9. State whether or not this was in the nature of an experimental purchase order, I mean this Exhibit 10-A and 10-B?

A. I would think that it was, yes.

Q. The only thing that was specified by Consolidated Vultee is the degree of accuracy of the ultimate instrument, isn't that correct?

A. Yes, I notice it also specified the total resistance, which is 2,000 ohms.

Q. Then they specified that they wanted an instrument which had a capacity of 2,000 ohms with an accuracy of .05 degrees, is that correct?

A. That is all that was on the order.

Q. And that is all that was known, wasn't it?

A. Yes.

Q. I notice a price extended here of \$225 each for [48] these devices, and that there were to be five of them. Isn't that a rather exorbitant price for a device like Exhibit 9, for example.

A. Well, it certainly is rather expensive. How-

(Testimony of Marlan E. Bourns.)

ever, I think since a missile is worth, I understand, in the neighborhood of \$100,000, the expenditure of \$200, if it will solve the problem, is relatively minor by comparison.

Q. Does or does not that price extension indicate that this was more or less of an experimental order, rather than for the purchase of a definite device?

A. I believe the price was set by me as one that would be sufficient to cover the experimentation and engineering and production that would be involved in making the five experimental units.

Q. All right. Now, did you, in accordance with this Consolidated Vultee order, Exhibit 10-A and 10-B, produce these instruments called for?

A. Yes, we did.

Q. Have you the instrument that you so produced, or a sample of it?

A. It was similar to the one which you have already introduced, but that may not be one of the first five.

Q. Do you mean 8 for identification?

A. I believe it was similar to that.

Q. Similar to Exhibit 8 for identification. I will [49] hand you Exhibit 8 for identification and ask you if that is what you referred to?

A. I should clarify that we used bakelite lids on the production units, inasmuch as this lucite will not stand the 200 degree temperature which is required of all missile components. This was strictly

(Testimony of Marlan E. Bourns.)

for demonstration on this unit and on this one (indicating).

Q. Now you are talking about Exhibit 8. You say the ones that you produced in accordance with this order Exhibit 10-A and 10-B were similar to but not identical with Exhibit 8, is that correct?

A. Yes, I believe so.

Q. Will you point out where there was any difference between the ones that you delivered in accordance with Exhibit 10-A and Exhibit 8?

A. One main difference was the stops in this earlier device were little round eccentric—

Q. No, I don't mean that. You say the ones you delivered to Convair, and in accordance with Exhibit 10-A, were similar to but not identical with Exhibit 8 for identification, we want to know how the ones that were delivered differed from Exhibit 8, not how they differed from Exhibit 9.

A. Well, bakelite lid that I already mentioned was one difference.

Q. Was there any others? [50]

A. I think the first unit—I believe on the first ones we used a brass arm, and a bakelite insulating block attached to the arm, and this one has an all bakelite arm, as far as I can see, so that would be one of the differences. Also, this has a little different counterbalance arrangement, I believe, than we first used. I am not sure whether the travel of this unit is the same or not.

Q. Well, generally Exhibit 8 for identification is illustrative of the first structure that you made

(Testimony of Marlan E. Bourns.)
on the experimental order, except for the minor differences that you pointed out, is that correct?

A. Yes, that is right.

Q. All right. Now, when was that delivery made?

A. On February 25, 1947.

Q. Those instruments were subsequently paid for, were they?

A. Yes, I think about a month or so later.

It seemed longer than that at that time.

Q. They were accepted, then?

A. We never got them back. I guess they finally did something with them.

Q. All right. Now, during this period of time of the making of this rotary type potentiometer, this vane type, was there any other problem that was expressed to you by Consolidated Vultee in this same field, which you also sought [51] to solve?

A. Yes, there was. They mentioned that another of their problems was determining the position of some of the fins on the missile, and also the position of various actuating hydraulic piston devices, and they said that at that time the only means they had of determining the position of these devices, either for telemetering or for control purposes was the use of a very crude arrangement, which consisted of a rotary potentiometer, probably of the radio volume control variety, to which a string or small wire was attached around the shaft or a pulley on the shaft, and this string then was pulled by the linear movement of the device they were

(Testimony of Marlan E. Bourns.)

interested in measuring and was pulled in the reverse direction by some type of coil spring or screen door spring; and obviously that sort of an arrangement is extremely crude, it was felt by them to be most unsatisfactory.

Q. And did you undertake to solve that problem for them?

A. Yes, I did. I felt that a direct approach to that problem would be to provide a potentiometer which moved in a straight line instead of in a rotary manner, such as the radio volume controls do.

Mr. Lewis E. Lyon: I will ask that this device heretofore marked for identification as Exhibit 8, be received in evidence as Exhibit 8. [52]

The Court: All right. It may be received.

(The exhibit referred to was marked Plaintiff's Exhibit 8, and was received in evidence.)

* * * * [53]

Q. By Mr. Lewis E. Lyon: I believe before the noon recess we started to discuss the linear pot development? A. Yes.

Q. And you had testified to the fact that you became acquainted with the problem at Convair; is that true? [54] A. I believe so, yes.

Q. And what did you do in trying to solve that problem, Mr. Bourns?

A. Well, I proceeded to draw up various sketches of possible constructions of instruments which would be a more direct approach to the problem, and would be more reliable and accurate than

(Testimony of Marlan E. Bourns.)

the roundabout method that was previously used.

Q. Did you submit your ideas on that problem to Convair?

A. I believe prior to going over any of my ideas with Convair, I had Instrument Development Company make an instrument embodying my ideas, and then showing the instrument to Convair.

Q. Do you have that instrument?

A. I believe it is here. I think it is in evidence.

Q. One that I used this morning?

A. Right. That is it.

Q. This Exhibit 6, is that the one you are speaking of?

A. Yes, I believe that's it, yes.

Q. Now, I am going to ask you to describe that structure, and its purpose, and use, and I am going to give you the tools, so that if necessary you can take it apart.

A. Well, the purpose of this instrument was to connect the shaft, which reciprocates relative to the body, to any device which moves back and forth in a straight line. [55]

Q. Now, what you call the shaft is the piece that projects from one end of the plastic body; is that correct?

A. From one end of the body. The body is not all plastic.

Q. I see.

A. A further part of this device which was made was a little hinge arrangement, which permitted this unit not only to follow a straight line motion,

(Testimony of Marlan E. Bourns.)

but a motion in the form of an arc, inasmuch as the hinge permitted this entire instrument to pivot. Basically, the instrument has a shaft and post and contacts in a base portion, and then in the lid portion it has a return, an electrical return, connected to one terminal, and an electrical element connected to two other terminals, and the contacts bridge there between those devices.

Q. I think it would be well, Mr. Bourns, if you would take that lid off of that—

A. All right.

Q. —and show what you mean by these different parallel electrical elements that are in the lid of this structure, because it is not apparent to me from your testimony.

(The witness does as requested.)

A. The lid has a wire-wound electrical element running longitudinally, and parallel to it is an electrical conducting bar. This is the electrical element which is wound with [56] wire, about the size of a human hair, and this is a silver-plated bar in this instance, and then this bridging contact, which is supported by the post and shaft assembly for rectilinear movement bridges between this element, and this collector strip of that contact is made to the center terminal and to any portion of the electrical element on which this electrical contact is resting.

The Court: When an electric current goes through, what does this instrument do to it?

The Witness: Well, the use, again, in general, is to connect a voltage across the two outer term-

(Testimony of Marlan E. Bourns.)

inals of the potentiometer, and then in accordance with the position of the shaft, a proportionate voltage can be picked off. In other words, say if five volts are placed across it, and the shaft is approximately one-fifth of the way from one end, then one volt would appear, if you moved it further it would be two volts, and so on. And the accuracy which is desired of an instrument of this type is the order of one-thousandth of an inch.

The Court: So it would be a very sensitive instrument?

The Witness: Extremely so.

The Court: Not likely to lose any of the power?

The Witness: Yes, sir, that is correct.

It is important, too, that the unit be capable of withstanding high speed operation and long life. Typical current requirements, present requirements, for instance, involve operating speeds of 200 cycles per second, which is extremely fast movement, and at the same time a traversing of the entire element, and during all that time no noise whatever is permitted, or by "noise" we mean any discontinuity of the electrical circuit.

Our customers normally reject instruments which exhibit [58] even one bit of discontinuity or noise during tests of that type. And the repeatability has to be extremely accurate, too, so that on returning the shaft to a definite position the same electrical reading is always obtained.

Q. By Mr. Lewis E. Lyon: Now, you spoke about a hinge arrangement that you made in con-

(Testimony of Marlan E. Bourns.)

nection with this original model. I hand you a device; is that the hinge arrangement?

A. That is right, that is the hinge.

* * * * *

Q. By Mr. Lewis E. Lyon: We were speaking, I believe, about you said you had had a hinge mounting for Exhibit 6, the first linear motion potentiometer. I believe I had just asked you whether this was the hinge mounting to which you referred.

A. Yes, sir, that is the hinge mounting. This back plate of this model is made so that it could be removed, and [59] this other plate installed in its stead. And that permits the entire instrument, then, to follow the movement of something which is moving in an arc, rather than in a straight line, by permitting the instrument to swivel about the hinge.

Mr. Lewis E. Lyon: I will ask that this hinge mounting be marked and received in evidence as Exhibit 6-A.

The Court: It may be received.

The Clerk: 6-A in evidence.

(The exhibit referred to was marked Plaintiff's Exhibit 6-A, and was received in evidence.)

Q. By Mr. Lewis E. Lyon: I note in this model 6 that the shaft which you have called the shaft which projects from one end of the potentiometer is a round shaft, but it is not capable of being turned with reference to the instrument; is that true?

(Testimony of Marlan E. Bourns.)

A. Yes, sir, that is true in this model.

Q. Did you develop or design other types of shaft construction for linear motion potentiometers?

A. Yes, we did. There are in general three different or four different constructions which we use or have used at some time. One is a round shaft, which is free to rotate relative to the post and contact portion of the assembly; another is a square or rectangular shaft, which is not free to rotate; and this arrangement is a round shaft which is not free to rotate; still another arrangement is that of a side shaft, rather than an end shaft.

Q. All right. Now, do we have exemplars of those different structures here, Mr. Bourns? I believe we have a square shaft.

A. The square shaft is already in evidence, I believe. [61]

Q. Yes. We have the square shaft in Exhibit 4; is that correct?

A. Yes, that is right.

Q. Now, taking that square shaft device, take it apart and show us what the difference in structural relationship of the post, the pressure plate, and the shaft is in that structure as compared with the assembly of the post, the shaft and the pressure plate in the round shaft structure?

The Court: I think it might be a good idea, if we are going to do this here, to put a blotter paper there before the witness, because these might roll off, Mr. Clerk.

(Testimony of Marlan E. Bourns.)

The Witness: I have it apart now.

The Court: That is all right. Just put a blotter down there. Otherwise they are likely to run away from there.

Mr. Lewis E. Lyon: Yes, so the screws don't roll off.

The Court: Yes. Screws have a way of disappearing.

Q. By Mr. Lewis E. Lyon: Now, will you proceed with your explanation of what the model is?

Mr. Pruitt: Is this Exhibit 4

Mr. Lewis E. Lyon: This is Exhibit 4.

The Witness: This device, much like the other, has a shaft—

The Court: Let's identify this. Is this one of the embodiments of the invention?

Mr. Lewis E. Lyon: Yes. [62]

Mr. Pruitt: It is so claimed by plaintiff, your Honor.

The Court: All right. We will be non-committal. We do not admit anything; at least, not today. Maybe next week we will, but not the first day.

The Witness: In this particular embodiment a square shaft was used for two reasons: one was for ease of machining, and ease of assembly. Another reason was to prevent the shaft from turning, and hence prevent the contact assembly from turning. You will note there is clearance in this particular model between the sides of this little slot, and this little device which we call a post.

By the way, it might be of interest where we

(Testimony of Marlan E. Bourns.)

got the name "post." Some of the fellows in the shop thought it looked like a post, and for lack of a better term it has been called a post, and has been called that ever since.

Q. By Mr. Lewis E. Lyon: The pressure contact plate on top of what you have just defined as a post has two contact elements, has it not?

A. Yes, that is right. These spring fingers.

Q. And those, between the two contact elements, are carried in a cover?

A. Yes, that is the same as the other. Here is the wire-wound resistance member, and an electrical return strip tied to the center terminal.

Q. Take Exhibit 4. Where was Exhibit 4 manufactured? [63]

A. This was manufactured by the D. B. Millikan Company.

Q. Who is the D. B. Millikan Company?

A. Who are they, you say?

Q. Yes.

A. It was an organization in Altadena operated by a man by the name of D. B. Millikan and Frank Gobel.

Q. You say this structure was made there. Was there any particular machinist or individual there who did this work for you?

A. I believe that Ed Pitzer did a great amount of the work.

Q. You mean Mr. Pitzer of the defendant organization? A. Yes, that is correct.

(Testimony of Marlan E. Bourns.)

Q. Now then, Exhibit 4 was made at the Millikan Company; is that correct? A. That is.

Q. When?

A. In the early part of 1947, I would say.

Q. Now, prior to the manufacture of this structure with a square shaft at the D. B. Millikan Company, had you known of square shaft developments?

A. I believe some of our early drawings made either by me or by Percy Scaling of the Instrument Development Company indicated a rectangular shaft as one possible embodiment of linear motion potentiometers. [64]

Q. And when were those drawings made with reference to the time that you first went to the Millikan Company?

A. I believe they were made before.

Q. Was that before you had met Ed Pitzer?

A. Oh, yes.

Q. Now, you have testified as to two forms of this structure, that is, the square shaft, and the round shaft, which is non-rotatable, and stated there was a third form of shaft in which the shaft was rotatable. I don't know whether you will accept this as a model that you want to use as a rotatable shaft, but here is one, and just define that as to the relationship of the three parts, the shaft, the post, and the contact plates.

Mr. Pruitt: Is that an exhibit, Mr. Lyon?

Mr. Lewis E. Lyon: No. I will ask that the model I have just handed the witness at the present

(Testimony of Marlan E. Bourns.)

time be marked for identification as Exhibit No. —

The Clerk: 11.

Mr. Lewis E. Lyon: ——11.

The Clerk: So marked for identification.

(The model referred to was marked Plaintiff's Exhibit 11, for identification.)

The Witness: We are lacking some insides in this one.

Q. By Mr. Lewis E. Lyon: There are no insides in that one? [65]

A. Oh, there are on the other side. Some, not all.

Q. Maybe you had better get a complete instrument from down below, then, and we will substitute it. A. If we can find one.

Mr. Pruitt: Now, which is 11? Are we to substitute this for the other exhibit as Plaintiff's Exhibit 11?

Mr. Lewis E. Lyon: That is perfectly satisfactory to me, or if it will serve to keep the record any clearer, we will mark this one.

Mr. Pruitt: Either way you want to do it.

Mr. Lewis E. Lyon: Let's see if this one is complete on opening it before we make a substitution.

The Witness: Yes, it seems to be.

Mr. Lewis E. Lyon: All right. Then we will substitute the one you now have, and let's keep these screws separate, whichever ones belong to which.

Let's have the clerk mark this, or put a tag on it, so we will know which one we are talking about.

(Testimony of Marlan E. Bourns.)

Q. By Mr. Lewis E. Lyon: All right. Now, will you explain Exhibit 11, for identification, and how it differs in this assembly of the shaft, post and pressure plate?

A. This instrument has a rotating shaft, whereas the previous instrument with round shaft and square shaft did not have a rotating shaft.

It became apparent that it would be advantageous to have [66] a shaft which rotated, because we found that customers sometimes tried to force the round shaft to turn, and damaged the insides, and also it was apparent that it was merely necessary to guide the contacts relative to the wire-wound element and the electrical return, and that it was immaterial whether the shaft turned or not. And for that reason in this particular embodiment the shaft was made to rotate, and the post in this instance served the function of supporting the contacts for engagement with the electrical element and the electrical return.

Q. Again, in this case you had the pressure plate carried by the post with the two contact elements to engage the two electrical elements in the lid; is that correct?

A. Yes, that is right. I might mention one other point. This particular instrument is of a different color, and the reason is that it is for high temperature operation. This is a glass silicon lid, and different construction for that reason.

Mr. Lewis E. Lyon: I will ask that the instrument just explained by the witness, and heretofore

(Testimony of Marlan E. Bourns.)

marked as Exhibit 11, for identification, be received in evidence as Exhibit 11.

Mr. Pruitt: Will you establish a date on the manufacture of that? I think it is immaterial, unless it was manufactured at some time when—

Mr. Lewis E. Lyon: I will be glad to do that.

Q. By Mr. Lewis E. Lyon: When was this type of rotatable shaft instrument developed, Mr. Bourns?

A. Let's see. You are referring now to a type rather than this specific instrument?

Q. Yes. This is an example of the type, as I understood it.

A. I am not sure that I can recall with much certainty. I would estimate that it was possibly in the early part of 1950. [68]

Q. Early part of 1950. All right. Where?

A. In our plant.

Q. Now, you have stated that there was a fourth type—

The Clerk: This is still unadmitted. Your Honor, is it admitted?

The Court: It may be received.

The Clerk: 11 in evidence.

(The exhibit referred to was marked Plaintiff's Exhibit 11 and was received in evidence.)

Q. By Mr. Lewis E. Lyon: Now, you have testified that there was a fourth type or a side shaft type, I believe you called it, of an instrument developed, and I will hand you what I take to be an exemplar of that type and ask you if

(Testimony of Marlan E. Bourns.)

that is an instrument exemplar of that type of structure?

A. Yes, sir, this is an example of that type.

Mr. Lewis E. Lyon: I will ask that this instrument be marked as Exhibit 12 for identification.

Mr. Pruitt: It appears to be the same as Plaintiff's Exhibit 5, Mr. Lyon. Correct me if I am wrong.

Mr. Lewis E. Lyon: Well, is it? If it is, there is no use of putting two of them in. I guess it is.

Let the record show that what I asked to be marked as Exhibit 12 for identification is the same instrument or is the same as Exhibit 5 heretofore admitted in evidence.

Q By Mr. Lewis E. Lyon: I will ask you, Mr. Bourns, [69] to take this structure apart and explain its differences in the assembly of shaft, post, and contact plate to the court.

A. It became evident that there were two possible drawbacks to the end shaft type of instrument which we have been looking at. One of the drawbacks is that it is necessary for the total length of the extended shaft, plus the instrument itself, to be considerably in excess of twice the mechanical travel that is desired, and often there is a space problem in that connection.

Furthermore, except for the units which have hinged mounting there may be a problem of aligning the actuating device with suitable precision to the alignment of the shaft so that no binds are in-

(Testimony of Marlan E. Bourns.)

troduced, and so that the instrument or the actuating device is not damaged or excessively worn.

For both of those reasons we developed the side shaft type linear motion potentiometer wherein the shaft comes out a slot in the side rather than through a hole in the end.

Q. You are speaking, then, of Exhibit 5?

A. That is correct.

In this Exhibit 5 the shaft comes through the slot in the side and is attached to the post which carries the contacts for engagement with an electrical element and a shorting strip or an electrical return, both of which are mounted side by side in the lid and connected to suitable terminals. [70]

Q. When was this type developed, Exhibit 5?

A. Again, I am not certain of the exact date, but I would estimate it to be in the early part of 1950.

Q. Now, Mr. Bourns, I am going to place before you Exhibit 3, copy of Exhibit 3, and ask you if you will point out from Exhibit 3, if you can, the drawings which correspond to these different exhibits that you have just identified of the four types of structures, if they are all illustrated in Exhibit 3, starting with Exhibit 5 here.

A. Which one is 5?

Q. Model 114-1.

Mr. Pruitt: I take it the purpose of this testimony is merely to identify the corresponding illustration with the exhibit, and not to get this witness's conclusion as to whether or not it is an accurate drawing of the instrument itself?

(Testimony of Marlan E. Bourns.)

The Court: Well, a witness of this man's experience, a physicist, could give his opinion whether a drawing correctly is to scale and correctly represents a certain object.

Mr. Pruitt: I agree, your Honor, that he could testify as to scale and general representation. But whether or not it is an accurate drawing of the instrument itself would seem to be shown by the drawing itself, and it would be a conclusion of the witness to state.

The Court: Not unless it is a photograph. Supposing [71] it were a photograph, you could ask a person whether it correctly represents what he saw.

A man who is taught to read blueprints, you can show him a blueprint and ask him if that is a correct representation of a structure, whether it is a house or a dog house, or a mechanical device.

Mr. Lewis E. Lyon: I think the witness as the designer of these things, your Honor, can correctly state whether these drawings are correctly illustrative of the structures.

The Court: You know, up to a certain stage I am willing to be guided by experts. After that I use my own judgment.

Mr. Lewis E. Lyon: I know that. [72]

* * * * *

Q. By Mr. Lewis E. Lyon: Now, starting with Exhibit 4—I believe we had started with 5, so let's stick with 5.

A. Exhibit 5 is shown in basic principle by plate 10. However, here is one noticeable difference.

(Testimony of Marlan E. Bourns.)

Plate 10 shows an instrument with a rectangular cross section post, whereas the instrument I have here has the round cross section post. At one time or another we have made quantities of instruments of both shapes of posts. Also, the drawings do not depict all of the various parts, such as the lead wires running to the terminals, and the like.

Q. You are referring to plate 10 of Exhibit 3 and to the post. That part is numbered on plate 10 of Exhibit 3 as what number? A. No. 66.

Q. And that is what you refer to as the post?

A. Yes.

Q. Now, the shaft is numbered in that drawing plate 10 as what? A. No. 64.

Q. And the pressure contact plate is numbered what? A. No. 67.

Q. And your electrical elements which are in the lid, there being two of them, and parallel, how are they numbered?

A. The electrical element is 73 and electrical return is 74.

Q. Now, similarly taking Exhibit 4 do you find in Exhibit 3 a drawing illustrative of that model?

A. Actually the plate 1 which shows the drawing taken from our patent 2,515,981 is very similar to this unit with two or three exceptions, and I believe it was from this particular model that the drawing was made in part.

The two exceptions that are most noticeable are the fact that the plate 1 shows a lid which has end portions integral therewith.

(Testimony of Marlan E. Bourns.)

Q. That lid is colored and numbered in plate 1, is it, as what? A. No. 72.

Q. And what is the color?

A. The color is yellow.

Q. And the entire yellow section, then, is the lid in plate 1? A. That is correct.

Q. While in Exhibit 4 the lid is the black plastic structure, is it?

A. Yes, sir, that's right. The reason for this particular embodiment of this model was so that the horizontal milling cutter could be used to make the longitudinal slots in which the element and the electrical shorting strip were mounted, and the plates made integral with the body portion were for the purpose of covering up the cuts which would otherwise come out through the end.

Q. Is there any other difference between plate 1 and Exhibit 4?

A. Yes, sir, one of the other differences is that plate 1 shows a round shaft No. 64, which is colored blue, whereas the model that I have, Exhibit 4, has a square shaft. Otherwise they are generally very similar.

Q. Was that model of structure as shown by plate 1 made in both this round and square shaft, then?

A. Well, yes, the basic principle shown by plate 1 applies to both instruments.

Q. Now, taking Exhibit 6, do you find an illustration of that model in Exhibit 3?

A. There are two possible illustrations which

(Testimony of Marlan E. Bourns.)

are similar to this, but neither of which are identical to it. [76] Plate 1 previously referred to is very similar with the exception, again, that the model, Exhibit 6, has end plates covering the ends of the lid, whereas the plate 1 has end portions integral with the lid, and also the pivoted mounting device shown in plate 1 is not present on this model, although the same thing was accomplished by Exhibit 6-A, I believe, which has been introduced separately, but which is not attached to the model at this time.

The Court: In making up this book, you tried as nearly as possible to give the same number to similar elements?

Mr. Lewis E. Lyon: Yes, your Honor, the same numbers are given to similar elements throughout the book, and those numbers are the numbers that are taken from the face of the patent.

The Court: All right.

Mr. Lewis E. Lyon. In fact, they are the number of figure 6—

The Court: That is all right. I have it here. Figure 6 of patent '981.

Mr. Lewis E. Lyon: Yes, they are figures 6, 7, 8 and 9 of both patents, both patents having the same drawings.

The Court: All right.

The Witness: The other plate which bears a similarity to Exhibit 6 is plate 7. However, this particular instrument or model 108 was made considerably after this time—— [77]

(Testimony of Marlan E. Bourns.)

Q. After which time?

A. At the time that Exhibit 6 was made. And at the time Model 108 was made it was desired to drastically reduce the size of the instrument, so that this instrument is much smaller and has a few other dissimilarities.

Q. Now, you mean the instrument of plate 7 is much smaller than Exhibit 6? A. Yes.

Q. But as is drawn on plate 7 it is larger. How do you account for that difference? If I was—

A. These drawings are not to any specific scale relative to the models, but merely to a scale which is consistent within the one plate, as I understand it. [78]

Q. I see. This scale of the drawing, then, of Plate 7 is, in effect, to magnify the actual structure; is that right?

A. Yes, that is correct. It is about twice; double scale.

Q. I see. Now, I believe there is one other model, and that is Exhibit 11. Now, is there a drawing illustrative of Exhibit 11 in Exhibit 3?

A. I believe Plate 21 would be the most similar. That is Model 109, and the difference between the Model 109 shown by Plate 21, and the Model 110 which appears on the face of Exhibit 11 was primarily to designate the fact that Exhibit 11 is for high temperature applications. And otherwise they are basically the same principle.

Q. Otherwise, except for the type of material

(Testimony of Marlan E. Bourns.)

used and for the color, Model 110 is the same as Plate 21 of Exhibit 3; is that correct?

A. Well, with certain minor exceptions, such as the lead wires, and such as the particular shorting strip shown. Plate 21 shows a round wire with the ends embedded in two holes, whereas this particular instrument may not. I am not sure actually. I don't have the lid off at this time.

Q. You don't know whether that is a difference or not, then? A. That is right. [79]

Q. All right. Put the cover back on, then. That is a matter of comparison, is it not?

A. Yes.

Q. All right. Now, you have testified that as to these different types of shaft, post, and pressure plate assembly there were certain sketches or drawings made, and made at a particular time. Have you any of those sketches or drawings?

A. I believe those drawings were kept in the Instrument Development Company file, and I believe that we do have most of those drawings here.

Q. Where are those drawings? Will you get them, Mr. Bourns? A. All right.

(The witness did as requested.)

Mr. Lewis E. Lyon: Incidentally, this file of the Instrument Development Company constitutes a portion of the material demanded on the subpoena duces tecum which was served on us yesterday at 11:00 o'clock, and this much of that material has been assembled at the present time.

Q. By Mr. Lewis E. Lyon: Now, can you find

(Testimony of Marlan E. Bourns.)

from this file where those sketches are that you referred to, Mr. Bourns?

A. Relating to which model, now, the linear motion type or the vane type?

Q. We have four different types of post, shaft, and [80] pressure plate. Some of those sketches you stated were in this file. Now, which ones are there?

A. Here is a sketch which shows a generally rectangular actuating bar.

Mr. Lewis E. Lyon: Now, this sketch which you have just produced from this file I will ask be marked Exhibit 12-A, for identification.

(The sketch referred to was marked Plaintiff's Exhibit 12-A, for identification.)

The Witness: And here is another sketch, which is dated December 17, 1946.

Mr. Lewis E. Lyon: I will ask that this sketch be marked Exhibit 12-B, for identification.

(The sketch referred to was marked Plaintiff's Exhibit 12-B, for identification.)

The Witness: That shows a unit remarkably similar to our model 108, as we now make it.

Q. By Mr. Lewis E. Lyon: That is 12-B, you are speaking of now?

A. Yes. There are several different sketches which show various general unit embodiments. Here are two such sketches.

Mr. Lewis E. Lyon: These two sketches that you have collected out of this file, which you say refer to vane type units, I will ask be marked Exhibits

(Testimony of Marlan E. Bourns.)

12-C and 12-D. I don't [81] believe you referred to them in any particular order, did you?

The Witness: No.

Mr. Lewis E. Lyon: 12-C for this one, and the next one 12-D.

(The sketches referred to were marked Plaintiff's Exhibits 12-C, and 12-D, for identification.)

Q. By Mr. Lewis E. Lyon: Now, have you other sketches in here that you desire to refer to at the present time?

A. Yes, I believe there are.

Q. All right. Just proceed and find them.

A. Did you want me to include those sketches which were made by Instrument Development by way of parts drawings for the making of some of the first samples?

Q. If they refer to this particular subject-matter of the four different types of pressure plate, post, and shaft assembly, yes.

A. Here are two drawings which show embodiments of vane type units, and this one shows various terminal means. One of our problems at the early stage was what type of terminal means to use, whether solder lug, studs, or screw type, or what-have-you. This shows various vane constructions.

Mr. Lewis E. Lyon: I will take the three drawings or sketches which you have now produced, and ask that they be [82] marked serially as Exhibits 12-E, 12-F, and 12-G.

(Testimony of Marlan E. Bourns.)

(The drawings referred to were marked Plaintiff's Exhibits 12-E, 12-F, and 12-G, for identification.)

The Witness: Here is a sketch that has an assortment of various sketches and also various written comments which were made by me. In fact, it has comments on both sides relative to various features and changes and improvements.

Mr. Lewis E. Lyon: I notice that many of these drawings or sketches that you have produced, and which have been marked, contain material on both sides. It was my intention in having them marked to refer to both sides.

I will ask that this further sketch which you have now produced be marked Exhibit 12-H, and I am including in that offer both sides.

(The sketch referred to was marked Plaintiff's Exhibit 12-H, for identification.)

The Witness: Here are two other sketches, which generally indicate the construction of the very first unit. There are alternate possibilities of various of the components.

Mr. Pruitt: Of the vane type, also?

The Witness: Yes, that is the vane type.

Mr. Lewis E. Lyon: I will ask that these sketches just identified by the witness, and, again, we include in one case both sides of the page, be marked as Exhibits 12-I and 12-J.

Q. By Mr. Lewis E. Lyon: Are there any further ones [83] that you locate at the present time?

(Testimony of Marlan E. Bourns.)

(The sketches referred to were marked Plaintiff's Exhibit 12-I and 12-J, for identification.)

A. Here is a set of drawings made for me by Instrument Development Company, which served as the parts drawings, which were for the purpose of making the first linear motion potentiometer.

Mr. Lewis E. Lyon: I will ask that this set of drawings be marked separately as Exhibit 13-A, -B, -C, -D, -E, and -F, as such drawings have been produced by the witness.

(The drawings referred to were marked Plaintiff's Exhibits 13-A, 13-B, 13-C, 13-D, 13-E, and 13-F, for identification.)

The Witness: There are several other drawings here which are illustrative of various other features and means of construction, but they would be generally similar to those already present.

Q. By Mr. Lewis E. Lyon: I notice, Mr. Bourns, that this material which you have produced is in three folders. Where did you obtain these three folders?

A. I obtained these three folders about two to three weeks ago from Instrument Development Company, where they have been kept ever since my last contact with that company, which was a matter of six or seven years ago.

Q. Well, let's see if we can fix more definitely just [84] when that last contact with Instrument Development Company was six or seven years ago. Can you fix a date any more definitely?

(Testimony of Marlan E. Bourns.)

A. They did work for me from time to time during 1947, as I recall, making in one instance the vane portion of the vane potentiometer, and various other parts. I believe I have not had any work done by them since the last of 1947, as best I can recall, and, generally speaking, they did very little work for me after they fabricated the parts for the first five vane units which were previously mentioned.

Q. And those are the first five vane units that were ordered by Convair on the first order, Exhibit 10-A and 10-B; is that correct? A. Yes.

Q. All right. Now, how did you come to obtain these three files of this material two or three weeks ago? Did they call you, or did you call them?

A. No, I called them.

Q. Did you learn at that time as to whether or not there had been any requests for this material from anyone else?

A. Yes, there had, and, in fact, this material was not present at their plant at that time, but was in the possession of one of the defendants—I am sorry—one of the attorneys for the defendants.

Q. I see. Did they then request its return from the attorneys for the defendants?

A. Yes, they did several times, and in order to finally get it, they set a definite deadline date.

Mr. Pruitt: I object to that. I don't see how the witness could know that.

I will stipulate that the attorneys for the defendants had access to these drawings, that they are

(Testimony of Marlan E. Bourns.)

the same ones that were in the possession of Mr. Skaling. I think this line of questioning is absolutely immaterial. As I say, Mr. Bourns has no way of knowing how many times Mr. Skaling had called the attorneys for the defendants.

Mr. Lewis E. Lyon: I am not interested in the number of times. All I am trying to establish is that these papers were in the hands of the defendants' attorneys, and I will accept the stipulation.

The Court: All right.

Q. By Mr. Lewis E. Lyon: Now, Mr. Bourns, we have identified quite a number of drawings here, many of which I find are undated, and which relate to both the vane type and linear potentiometer. Have you any way of fixing a date upon which these drawings or sketches were made? Taking, for example, the drawing Exhibit 12-A, do you know when that was developed, with reference to any particular date?

A. I believe this drawing would have been made probably [86] by Mr. Skaling—it doesn't appear to be my drawing—probably in December of 1946, inasmuch as I contacted him relative to making a linear motion potentiometer at that time, and he and I sketched up various constructions which seemed to be good possibilities.

Q. How do you account for the fact that this particular drawing or sketch is apparently one made by Mr. Skaling?

A. Well, quite a few of them actually are made by Mr. Skaling.

(Testimony of Marlan E. Bourns.)

Q. Were you present when these sketches were made?

A. In some cases, yes. Generally, when the sketches were made I was present, inasmuch as we were going over possible constructions for the instruments. Then in the case of some of the more detailed sketches for the actual making of the parts, he probably did that on his own, following the outline for assembly sketches which had previously been made.

Q. Now, will you place Exhibits 13-A to -F, inclusive, as the latter more comprehensive type of sketches, not made when you were present?

A. I am sorry. I am confused by that number.

Q. Exhibit 13. Here is 13-A to -F.

A. Oh, yes, that is correct. These were sketches made by, I believe, Mr. Skaling to give to their shop for fabrication of the parts.

Q. Now, those exhibits 13-A to -F, inclusive, then, as [87] I understand it, are the type of sketches which were not made during your presence?

A. Generally not. I wouldn't stay there during the making of the parts sketches, but was generally present during the designing of any of the portions as shown by assembly sketches.

Q. All right.

A. Here are some additional sketches, by the way, which relate to the first vane unit and show parts sketches for the various parts therein.

Q. These are what you call a parts or shop parts

(Testimony of Marlan E. Bourns.)

sketch, which were made for the vane type potentiometer; is that right?

A. Yes, for the first unit.

Mr. Lewis E. Lyon: I will ask that these sketches be marked as Exhibit 14-A, -B, -C, -D, -E, -F, -G, and -H, respectively.

(The sketches referred to were marked Plaintiff's Exhibits 14-A, 14-B, 14-C, 14-D, 14-E, 14-F, 14-G, and 14-H, for identification.)

Q. By Mr. Lewis E. Lyon: You have another piece of paper you have produced from one of these files. What is this?

A. This is said to be linear motion potentiometer suggestions. The abbreviation is L.M.P. [88]

Q. What does L.M.P. mean?

A. That is the abbreviation we often use in our plant for linear motion potentiometer.

Q. In whose writing are those?

A. These are in my writing.

Q. In your writing?

A. Yes. They are various suggestions of changes or improvements which should be made in order to make the instrument usable and salable.

Q. Do you know when this particular paper was prepared by you?

A. Probably after the completion of the first linear motion potentiometer sample.

Q. And when was that?

A. Let's see. I believe that was delivered to me—the parts were delivered to me in the middle of December of 1946.

(Testimony of Marlan E. Bourns.)

Mr. Lewis E. Lyon: All right. I will ask that this paper entitled "L.M.P. Suggestions" be marked Exhibit 15, for identification.

The Court: It may be so marked.

(The document referred to was marked Plaintiff's Exhibit 15, for identification.)

Q By Mr. Lewis E. Lyon: Now, I am going to have to go back over these drawings, Mr. Bourns, and see if we can [89] establish in each case the date that these drawings were made, and I will ask you to take each one in chronological order. That is Exhibits 12-B to 12-J, inclusive, and tell me when each of those drawings was made.

A. Does that have to be in chronological sequence, or any sequence now?

The Court: If you can, it would help to show the evolution of the idea.

The Witness: I see. I believe possibly Exhibit 12-J was one of the first sketches made of a vane potentiometer, and 12-I was probably somewhat subsequent to that time.

Q. By Mr. Lewis E. Lyon: All right. Now, what time is that?

A. I believe it would be in the latter part of November, of 1946. In fact, I believe one of the work orders of Instrument Development indicates the date of a sketch in mentioning what they were to make. Perhaps I can find that.

Q. I wish you would, if it is there. While you are doing that, you might tell me who made or who

(Testimony of Marlan E. Bourns.)

drew both Exhibits 12-I and 12-J, to which you have just referred.

A. Let's see. 12-I and 12-J were both drawn by me, and the date appears on Instrument Development Company's order No. 1131, wherein they write up their shop order "for the manufacture of one special vane potentiometer according to sketch of November 26, 1946, and our own detailed sketches," [90] so it would appear that my sketch was made on or about November, 1946.

Mr. Lewis E. Lyon. Now, you have drawn from the files this shop work order, and have read from that shop work order, and I will ask that this shop work order be received in evidence as Plaintiff's Exhibit 16.

The Clerk: Is this admitted, your Honor?

The Court: It may be received.

The Clerk: Plaintiff's 16 in evidence.

(The document referred to was marked Plaintiff's Exhibit 16, and was received in evidence.)

Mr. Lewis E. Lyon: At this time, while the witness is going through the rest of these papers, I will ask that these documents marked Exhibits 12-A to -J, inclusive, and 13-A to -F, inclusive, and 14, and 15 likewise, be received in evidence.

Mr. Pruitt: Your Honor, I would like to reserve the right to inspect these voluminous exhibits which Mr. Lyon has given to the clerk. I haven't had an opportunity to see them, and I wonder if he could reserve his offer until tomorrow morning?

(Testimony of Marlan E. Bourns.)

The Court: That is a legitimate request.

Mr. Lewis E. Lyon: It is absolutely all right.

The Court: I will not rule on the motion. We will let the matter go until tomorrow.

Mr. Lewis E. Lyon: That is all right.

Q. By Mr. Lewis E. Lyon: Now, you got through 12-I and 12-J in your chronological review of the dates of the making of these drawings. Complete your answer. A. Pardon me?

Q. You were getting the dates when these other drawings in this 12 series were made. You had -I, -J and -A, you told me when those were made. Now, let's get the rest of them if we can.

A. I believe 12-E was made after the one previously mentioned.

Q. Can you establish a date before which it was made?

A. Yes, they were made between the time of making the first vane sample instrument at Instrument Development, and the second one, inasmuch as they show models which were considered between those periods but which were ruled out before the actual making of the model.

Q. And those models, those five vane-type instruments, I believe that you are referring to, were those the first two models?

A. The first two models I am referring to. [92]

Q. And those two models were made before the Convair order of Exhibit 10-A?

A. Oh, yes, right.

Q. All right.

(Testimony of Marlan E. Bourns.)

A. I would think that 12-E was next in sequence, and that is my sketch.

12-G, part of it is my sketch and part of it is somebody else's, and it shows the different type of vane, so I should imagine it was made at about the time we replaced the original vane, which is shown by one of those other sets of drawings with the vane which is now on the instrument, and the dates of that can be determined.

Q. On which instrument?

A. The one in your hand, whatever exhibit number it is.

Q. Left hand? A. Left hand.

Q. That is Exhibit 7.

A. Exhibit 12-F shows a body and wall and cover member for a vane unit, which is substantially identical to the construction that was used in the second model.

Q. And that second model is the Exhibit 9 model?

A. Yes. It also shows on the back side in one corner various sketches relative to linear motion potentiometers and pivoted mountings for them.

Q. Whose sketch is that? [93]

A. That is all in my handwriting, my sketches.

Q. Does this show a simultaneous consideration of the vane and linear motion?

A. Yes, it does. I was stingy with paper.

Q. Was or was not this sketch made at the Instrument Development Company's place of business?

A. No; I believe it was made at my home.

(Testimony of Marlan E. Bourns.)

Q. And taken to their place of business?

A. Yes. In fact, that is the case with nearly all of the sketches which are made by me. Whenever I was at Instrument Development Company, in general Percy Skaling did the sketching and I made suggestions, whereas at my home I did all the sketching myself.

Q. Is there a differentiation in that regard between the yellow paper sketches and white paper sketches?

A. There very well might be. It seems I had a supply of yellow paper.

Q. I am not asking you what might be but I am trying to get an order in this. Were these yellow sketches made by you and taken to Instrument Development, while the white sketches were made at Instrument Development Company?

A. Yes, that seems to be the case, but it seems somebody scribbled some screws on this one yellow page.

Q. Continue with your chronological review of these exhibits. [94]

A. 12-D shows a vane unit, and it was not made by me and is on white paper, and I assume was made prior to the making of the second vane model.

Q. Why?

A. It shows the general construction which was used in that vane model.

Another sketch, 12-C, shows a vane model, and there is a point of interest here, it shows in one instance a one-piece lid in the upper right-hand

(Testimony of Marlan E. Bourns.)

corner with the bearing mounted directly in the lid, and in the lower left-hand corner it appears to show a different construction, wherein the bearings are mounted in the body and the wall, and the electrical elements would then be mounted in the lid. We did make units both ways at various times.

Q. When you get to 12-C, Mr. Bourns, you get to the proposition where someone has dimensioned the instrument. A. Yes.

Q. Is that true of these earlier sketches or other sketches?

A. I don't believe there were dimensions on many of them, although they generally were to scale in some cases, I think.

Q. I notice on 12-E that you pointed out that someone had made some figure drawing, there are notations on the bottom; are those apparently dimensions? [95]

A. Yes, those are probably over-all dimensions of the three major dimensions of the finished instrument.

Q. And on 12-J there are some dimensional indications on the bottom right-hand corner?

A. Right.

Q. Are those in your handwriting?

A. Yes, they are.

Q. All right. Now, proceed.

A. 12-B bears the date December 17, 1946, and I have my signature in the upper right-hand corner, and it shows a linear motion potentiometer and gives some dimension, namely, the body was to have

(Testimony of Marlan E. Bourns.)

been made out of half-inch square bar two inches long and a rod 3/16ths in diameter.

Q. I note that this is not on yellow paper. Who made this sketch? A. I did.

Q. Now, does this have any indication as to where this sketch was made?

A. No. I feel sure this was made at my home.

Q. Is this sketch on both sides of the paper, or only one side? A. Only one side.

Q. When was this sketch made?

A. December 17, 1946 is written on here. [96]

Q. Is that in your handwriting? A. Yes, sir.

Q. Did you date that at the time that you made the drawing?

A. I assume so. In fact, apparently I felt there was significant material in it and dated it and signed my name up at the time for whatever it may have been worth.

Q. The word below the date is "linear pot"; in whose handwriting is that?

A. That is not in mine. I think that is in Percy Skaling's writing. I believe that checks with these others. Yes, it appears to be his writing.

Q. Is there any other writing on this sketch on Exhibit 12-B for identification which is not in your handwriting?

A. No, I don't see any, just the words "linear pot."

Q. Is there anything on Exhibit 12-B which was not on that exhibit on December 17, 1946, other than perhaps this wording "linear pot"?

(Testimony of Marlan E. Bourns.)

A. No, that is the only possibility. I haven't had it in my possession.

Mr. Lewis E. Lyon: At this time, your Honor, having finished with this series of sketches and this material it might be an appropriate time to stop, rather than go into a new subject matter. [97]

The Court: Yes. After counsel has examined them I will look at those sketches.

The Witness: Here are two other sketches which were over at the side and were not considered, which probably should have been.

The Court: Show them to Mr. Lyon and see if he wants them.

Mr. Lewis E. Lyon: Yes, I want the dates of these two sketches.

The Witness: I think we assigned a date to it.

Q. By Mr. Lewis E. Lyon: 12-A, we have, and 12-H, I don't believe you testified to the date of that. Will you do that, please?

A. This was made after the first model was made, inasmuch as one of the notations on the back is to use a thinner metal for the cover, so that it would have been made right after the completion of the model of the first unit, and far prior to the making of the second model, inasmuch as we did not make another unit having a sheetmetal cover at all, although on this I suggested a thinner metal cover and various other similar items.

Q. The first model—to which model do you refer? A. The big one.

Q. You mean the vane-type model?

(Testimony of Marlan E. Bourns.)

A. Vane-type, yes. [98]

Q. And that is Exhibit 7, this one? A. Yes.

Q. All right. Now, are there any other drawings the date of which you have not established? I think generally there are these drawings of the series 13 and 14, which you say are Mr. Skaling's drawings, and can you fix the date of those drawings with reference to the time of construction of the instruments?

A. I believe so, inasmuch as these sketches would have been made after I had requested Instrument Development to make a model, and before the model was made, and in fact probably before any of the parts were made in both cases.

Q. In both cases? A. Yes.

Q. And the 13 series refers to the first linear motion potentiometer, does it? A. That's right.

Q. That was made when?

A. I believe the parts for the model were completed in the latter part of December 1946.

Q. All right. Now the 14 series drawings -A to -H refer to which model?

A. To the first vane-type unit.

Q. And that is Exhibit 7, the large one?

A. Yes. [99]

Q. And that was completed when?

A. I believe the parts were completed approximately the middle of December of 1946.

* * * * * [100]

Mr. Lewis E. Lyon: At this time, your Honor, I will renew the offer in evidence of Exhibit 12-A

(Testimony of Marlan E. Bourns.)
to 12-J inclusive; 13-A to 13-F inclusive; 14-A through 14-H, inclusive; and 15.

The Clerk: Are these admitted, your Honor?

The Court: They may be received.

The Clerk: Exhibits 12-A to 12-J inclusive, 13-A through 13-F inclusive, 14-A through 14-H inclusive, and 15 are in evidence.

(The exhibits referred to were marked Plaintiff's Exhibits 12-A to -J, 13-A to -F, 14-A to -H, and 15, and were received in evidence.)

Direct Examination—(Resumed)

By Mr. Lewis E. Lyon:

Q. Mr. Bourns, on the matter of the linear motion potentiometer, I do not believe that I have asked you the date [103] of the first order, the first purchase order received for the linear motion potentiometer. I believe that has heretofore been established in the depositions. I hand you a set of three photostats and ask you if this is the first order received on the linear motion potentiometer?

A. Yes, it is.

Q. And what was the date of receipt of that order?

A. The order was dated February 26, 1947, and it is marked confirmation, so it is probable that I received a phone call on or about that same date giving me the order number.

Mr. Lewis E. Lyon: I will ask that this purchase order be received in evidence as Exhibit 17, being three sheets.

(Testimony of Marlan E. Bourns.)

The Clerk: Is this admitted, your Honor?

The Court: It may be received.

The Clerk: 17 in evidence.

(The exhibit referred to was marked Plaintiff's Exhibit 17, and was received in evidence.)

Q. By Mr. Lewis E. Lyon: Was this order, Exhibit 17, filled by you? A. Yes, it was.

Q. When?

A. I believe the instruments were delivered April 12, 1947. * * * * [104]

By Mr. Lewis E. Lyon:

Q. Mr. Bourns, you have testified concerning the tests given of the potentiometers in order that they meet the requirements of exactness, and I believe that you have a device here which will demonstrate the preciseness required of such of these instruments. Will you demonstrate that? Just bring it right up. A. All right.

(The witness does as requested.)

Q. And in doing that, will you describe the equipment which you have produced?

A. All right. This particular piece of equipment is generally similar to the testing device that I mentioned this morning, although that particular device was made in a slightly smaller black case with Bakelite paneling. It did incorporate a helipot, and a so-called duo-dial for the making of [148] measurements, and a meter.

Q. Just a minute. You are going to use some terms that I am sure no one in the court room will know what you mean. You started out with "helip-

(Testimony of Marlan E. Bourns.)

pot," and it is a complete stranger to me, and it will be to the record. When you use terms of that kind, will you tell us what you are talking about?

A. The helipot is a trade name for a multi-turn rotary type of potentiometer. This particular one has ten turns. And attached to it is a dial with a vernier arrangement, such that the outer dial records each of the turns, whereas the inner dial indicates a reading of the position of the shaft of the potentiometer within each turn.

This dial is calibrated in such a manner that each division on the inner dial represents one-tenth of one per cent of the voltage impressed across the entire potentiometer when it is hooked up in the manner in which it is hooked up in this device.

Q. All right. Now, what is the purpose of this instrument?

A. The purpose is to make accurate calibrations of potentiometer type instruments of any kind.

In addition, other tests can be performed, and various instruments can be tested simultaneously by the selector buttons which are shown here. [149]

Some of the typical tests which can be made are the tests which we call shorts to case. It is important that the electrical elements be completely insulated from the case of these instruments, and we check that particular characteristic.

Q. That is throughout the range of the shaft?

A. Through the range, that is correct. In fact, that is the reason basically that it is necessary to have the shorting strip and the secondary contact,

(Testimony of Marlan E. Bourns.)

as shown by our various plates. Otherwise it would be possible to tie the wiper directly to the shaft, as an example. [150]

Q. That is, the reason for the shorting strip and its mounting in the cover— A. That's right.

Q. —is to avoid any possibility of shorting to the case?

A. That's right. Because the instrument itself may be mounted to some part of an airplane or missile, and the electrical connections may be at some different potential than the metal to which it is attached.

Q. You have an instrument in your right hand here which you keep pointing to; will you just state for the record a clear description of what that is?

A. This particular instrument is a center tap dual linear motion potentiometer. It is our model 115 CT.

Q. It is shown in Exhibit 15, is it, by a plate?

A. That exact instrument is not shown; however, plate 21 shows an instrument which is substantially identical, with the exception that it does not have the center tap, and hence there is one less terminal on each side.

Q. I see. All right. Now, this particular potentiometer which you have in your hand is mounted. What is it mounted on?

A. It is mounted on a little block to which is attached a depth micrometer for the purpose of moving the shaft back and forth by known increments. [151]

(Testimony of Marlan E. Bourns.)

Q. That is, you can measure to a thousandth of an inch the amount of movement of the shaft by the use of this depth micrometer, is that correct?

A. Yes, sir, that is correct.

Q. How is this instrument, this potentiometer, coupled with this test device that you have defined?

A. We use three conductor cables which plug into any of six receptacles on the back of the equipment, and in this particular instance we have three alligator clips which tie to the terminals. In some instances we have clip boards which fits specific models for rapid test purposes.

Q. Now, will you connect these two instrumentalities together?

I may suggest it would probably be advisable for the purpose of the record to have this instrument in its complete form as now coupled together photographed so that it will show, and use photographs in the record rather than to place these instruments in the record.

The Court: I think Mr. Childress would appreciate that.

The Clerk: Yes, it is hard to fold those things together.

The Court: He doesn't like to hold physical exhibits when we have no place to put them.

Mr. Lewis E. Lyon: This looks to me like a valuable test instrument. [152]

The Court: That is all right. I once had a gyroscope worth \$16,000 in a patent case, one of the first ones I handled.

(Testimony of Marlan E. Bourns.)

The Witness: I have set the micrometer which controls the movement of the shaft at six hundred thousandths of an inch, and have made a measurement using the dual dial and helipot, and the sensitivity buttons together with the null indicating meter which is 12.5 per cent.

Q. By Mr. Lewis E. Lyon: What does that 12.5 per cent mean?

A. That indicates that electrically we are 12.5 per cent away from one end of the instrument.

Q. All right.

A. I can move this—

Q. Your answer is that you do not know whether you have 12.5 per cent of the total resistance in the circuit or 87.5 per cent of the total resistance in the circuit, is that correct?

A. Well, actually there is a color code, one lead is white and one is black, but at this particular moment I forget which is which, these buttons permit the reversal so that I can also read the 87.5 per cent, and by know which of these leads corresponds to which terminal it is possible to determine which end I am reading from.

Q. Now, by making the second test you can determine [153] which end you were reading from originally, can't you?

A. That now reads 87.6, which is one-tenth per cent within correlation of the first reading.

Q. Now, so that we are reading from—

A. I can determine by physical inspection that we are reading from the end of the instrument op-

(Testimony of Marlan E. Bourns.)

posite the shaft, since the shaft is now pushed in nearly all the way.

Q. All right. Now, will you set that to a second reading?

A. All right. I will set it at .45. At that position I obtain a reading of 23.75 per cent.

Q. All right. Is this instrument used to test these potentiometers to this degree of accuracy?

A. Yes, it is.

Q. Is this a required degree of accuracy?

A. That is correct. We take our readings to the nearest tenth per cent, which is—

Q. In demonstrating the repeatability of these instruments, will you go backwards through those same two settings, return to the six thousandths, or six hundredths, I guess it is, reading, and then to the forty-five hundredth reading, and see if you get the same reading.

A. All right. I should explain in any wire-wound potentiometer the contact may at any time sit between two immediately adjacent [154] wires, so that it is almost possible with an infinitesimal movement for the contact to rest on either one wire or the adjacent wire, so that you can never be sure of a repeatability which is greater than the resolution of the instrument, and by "resolution" we mean the spacing of the wires that are wound on the element.

Q. And that spacing of the wires on an instrument of this type is in thousandths approximately how much?

A. Approximately one thousandth of an inch in

(Testimony of Marlan E. Bourns.)

this particular case. I have a reading of $12\frac{1}{2}$ per cent, 12.5.

Q. Which setting is that on?

A. That is at .600.

Q. So at this time you came out with absolutely the same reading without any deviation, is that not true?

A. As I recall that is the same reading.

Q. Now, return it to the forty-five hundredths position.

A. All right. I now have a reading of 23.75 per cent. [155]

Q. Now, will you demonstrate the use of this apparatus in determining that there is no shorting throughout the entire travel?

A. I lack a lead in order to determine that. Another lead has to be plugged in.

Q. And you don't have that lead here?

A. No, I don't.

Q. Just point out how it is done, then?

A. We simply push this button which says "Insulation Resistance," and since we are using a 600-volt battery we have a secondary button for the protection of the operator, which is pushed only when that test is being made, and it applies 600 volts DC between the terminals and the case of the instrument. The lead, which is not here today, is attached to the body, the metal body of the instrument, and to the meter.

Q. You mean you impress across these little devices 600 volts?

(Testimony of Marlan E. Bourns.)

A. That is right. And with that voltage impressed they must have 50 megohms resistance, and that is 50 million ohms.

Q. And what is the capacity, or, what are the specifications of voltage impression these things are required to operate at?

A. Between the elements and the case, or across the— [156]

Q. Across. They are given a certain capacity. What is the ordinary voltage impressed upon the device in its use?

A. One of the most common voltages is 5 volts.

Q. 5 volts?

A. That happens to be used in telemetering testing extensively.

Q. And you tested with 600 volts?

A. That is in a different way. The 5 volts are applied from the end of the electrical winding to the other end, whereas the high voltage is applied from both windings and contact assemblies to the case, to determine they are insulated.

Q. All right. Now, there is no such use as that in actual use, then?

A. No, except that it is important that there be no shorts between the elements and the case, or it might cause failure not only of the instrument, but possibly of the missile, through shorting of the power supply.

Q. I am trying to get the reasoning behind impressing 600 volts on a device that is supposed to operate at 5 volts.

(Testimony of Marlan E. Bourns.)

The Court: He merely says it is in a different direction. He says it is 600 in one direction, and the other in a different direction.

The Witness: The 500 volts or 600 volts is impressed between the electrical terminals and the actual body and shaft of the instrument, since the body and shaft are tied physically, and electrically to the missile frame itself, and hence the other connections to which the missile power supply and battery may be connected may be at some potential such that a short between the body of our instrument and one of the terminals would cause excessive battery drainage or failure of other components.

Q. By Mr. Lewis E. Lyon: All right. Now, what other tests of these instruments are made, in accordance with their requirements, and what do the tests consist of?

A. We have to determine the total resistance of the instrument, and that is done by pushing this button.

Q. That is also done on the same instrument?

A. Yes.

Q. That can be told at these terminals (indicating), can it not?

A. I think it can. There is a built-in Wheatstone bridge in this device, which has a main scale and a multiplier. At present the main scale is set at 100, and the multiplier at 100, which gives 10,000 ohms check, and in reading on the meter we find a deviation expressed in percentage of whatever resistance we set the dials at of 6.4 per cent negative.

(Testimony of Marlan E. Bourns.)

In this particular case our resistance tolerance is plus or minus 10 per cent. In most instruments it is plus or minus 5 per cent.

Q. Now, what other tests are made of these instruments [158] in order that they may meet the specifications of their use?

A. We normally check the end setting. By that we mean we move the shaft to both extremes of travel, and measure the resistance, or the voltage ratio, I should say, which is exhibited at that point. That can be done by means of this dial, and it can also be done by means of a quick check feature, which is built in and reads directly on the meter.

Q. Now, is there any other test that is made?

A. Yes. We check for what we call noise, and what is normally referred to on our calibration as a scope test, the reason being we originally used an oscilloscope to make the test. By that I am referring to any electrical discontinuity while the shaft of the instrument is being actuated.

An auxiliary oscilloscope device or noise-testing circuit is connected to the back of the instrument, and by pushing your particular button it connects that to the circuit.

Any discontinuity whatever during the testing of the instrument gives it a reject, from our standpoint and the customer's.

Q. Is there any quantitative noise requirement that is connected with that?

A. There are various devices on the market very recently [159] which give a quantitative measure-

(Testimony of Marlan E. Bourns.)

ment, and we also earlier, through use of the oscil-láscope, which was calibrated, were able to make quantitative measurements.

Q. Is this type of test equipment that you have before you what you refer to as test equipment which you developed and regarded as one of your confidential matters?

A. Yes, it is very similar. That particular device did not have the built-in Wheatstone bridge, but used an auxiliary bridge, which was connected by pushing a button at the top.

Q. Then, I take it this is a later model of that test apparatus? A. Yes, it is.

The Court: Has this a name? I just wondered if this has a name.

The Witness: A potentiometer test meter would be the name.

The Court: It is a form of a meter?

The Witness: Yes.

The Court: A test meter, I mean.

Q. By Mr. Lewis E. Lyon: It has no commercial name. It is one you built in your own place; is that right? A. Yes, we did.

The Court: And it will make all the tests to determine the accuracy of the other instrument?

The Witness: Yes, that is right.

Q. By Mr. Lewis E. Lyon: Now, you have had considerable training in electrical engineering, I understand. Is there any other potentiometer use that you know of, the accuracy of which approaches

(Testimony of Marlan E. Bourns.)

the requirements of these potentiometers you have been selling.

Mr. Pruitt: I didn't hear that. Will you read it, please?

(The question was read.)

Mr. Pruitt: I will object to that, your Honor, as immaterial, unless some date is placed on that question. I don't see that it has any materiality up to the present time.

Mr. Lewis E. Lyon: The date is throughout the period of selling.

The Court: Overruled.

The Witness: One highly accurate device is the helipot, which is in this meter itself. It is very different than the device which we make, however.

Q. By Mr. Lewis E. Lyon: Well, in the radio field is there any requirement of this accuracy?

A. No, not at all. In fact, the general use of the potentiometer in the radio field is as a volume control, and customarily tolerances for that type of use are on the order of 20 per cent. [161]

Q. In any other field you can think of in the use of potentiometers, is there any requirement for accuracy?

A. I believe there is a bridge device made by Leeds & Northrup, which uses a large diameter rotary potentiometer, which is accurate.

Q. What is the use of that instrument?

A. It is quite similar to this use, in the sense that the variable potentiometer is used to measure an electrical value. Actually, it is used to measure

(Testimony of Marlan E. Bourns.)

resistance and differs from this in that it is less than a full turn of operation compared to ten turns for this device.

Q. Now, this helipot you say you have in this test instrument you have in front of you, was that one made by you?

A. No, that is made by the Helipot Corporation.

Q. And what accuracy does that have?

A. Well, actually, when we first obtained these units, we needed greater accuracy than that normally provided, and it was necessary to purchase special instruments which were selected and hand-adjusted, in order to assure that the required accuracy would result. It generally is accurate to .05 per cent.

Q. Is there any place that you know of that there is a requirement for precise repeatability of a potentiometer as in this field of guided missiles which you have been supplying? [162]

A. Not except for the two instances already mentioned.

Q. You have, have you not, the problem of weight and size also in the guided missile field. Does that differ from the instances that you have specified of the Leeds & Northrup instrument, or this Helipot?

A. Yes, it does. The Leeds & Northrup device is rather large, and the Helipot device likewise is large compared to our linear motion potentiometer, for example. Furthermore, in connection with missile applications there are severe vibrations and ac-

(Testimony of Marlan E. Bourns.)

celerations and life cycles that are required for satisfactory operation.

Q. Now, is this instrument that you have in front of you one that is used for these rapid cycle tests of this instrument, or do you have another instrument for that purpose? You say you test for 200 cycles per minute of movement or vibration. Is this instrument used in carrying out those tests?

A. The main thing which it is desired to determine during that test is whether that instrument has noise or discontinuity, and through the use of this meter, coupled with noise measuring devices, it is possible to determine whether the instrument operates satisfactorily under those conditions.

Q. Now, how about the vibration? Does the vibration test the same as the test for repeated cycling? [163]

A. For vibration we mount the entire instrument on a commercial vibration machine, which subjects it to vibrations comparable to those encountered in aircraft, and monitor the output to be sure it is performing satisfactorily.

Q. Why do we have to have such a long life in a device of this character? Isn't it true, or am I wrong there,—assuming the device is mounted in a guided missile, the missile is sent aloft, that is the end of it; isn't that true?

A. That would seem to be the case. Actually, at this stage of the missile art a tremendous amount of testing is done, and, furthermore, some missile systems use a so-called dither hydraulic system,

(Testimony of Marlan E. Bourns.)

wherein the potentiometer is subjected to 210, in one instance, cycles per second of vibration over a limited stroke, so with that high speed of operation, it only takes only a minute of a few hours to reach a life cycle on the order of several million.

Q. Well, then, these instruments are primarily designed for the test staging in the guided missile art; isn't that true, rather than for use in guided missiles that might be manufactured for the purpose of use of such missiles?

A. No, they are used in the missiles themselves.

Mr. Pruitt: Just a moment. I object to that, your Honor, on the ground that it is hearsay, so far as this witness is concerned, as to what use is made by people who [164] manufacture test guided missiles, unless some other foundation is laid.

The Court: Will you read the question, please?

(The question was read.)

The Court: I will sustain the objection because it is speculative. He has already testified that at the present time they are being used in tests, and what they might be used for later on depends a good deal upon the future. I will sustain the objection. The first part of the question has already been answered. [165]

Cross Examination

Q. By Mr. Pruitt: Mr. Bourns, yesterday you testified that Convair presented a problem to you back in 1946 which you undertook to solve, is that correct? A. Yes.

(Testimony of Marlan E. Bourns.)

Q. And did Convair approach you with respect to that problem, or did you approach Convair?

A. I learned of it through Convair personnel.

Q. Did you call someone at Convair at that time?

A. I believe the first knowledge I had of Convair's problems was through association with Convair engineers by the name of Dave Wagner and Pete Nagy, in connection with work which I was doing through N.O.T.S.

Q. Do I understand that you knew Mr. Wagner and Mr. Nagy prior to the time that they presented this problem to you? A. Yes.

Q. And when did you first meet either Mr. Wagner or Mr. Nagy?

A. I can't be too accurate on that date. I believe it would be in the winter or spring of 1946.

Q. Do you mean in the winter of 1945 or the spring of 1946?

A. Well, I was really referring to the early months of 1946.

Q. Early months of 1946.

At the time you first met—which one did you meet at that time, Mr. Wagner?

A. I don't recall which one I met first.

Q. Was it a personal meeting?

A. They were working on the same missiles for Convair on which the Naval Ordnance Test Station was installing [188] telemetering equipment, which I had worked on for Naval Ordnance Test Station.

(Testimony of Marlan E. Bourns.)

Q. At that time, at the time of your first meeting and the ensuing period did you have discussions from time to time with Mr. Wagner or Mr. Nagy concerning this problem?

A. We did some testing at Inyokern, and in the evening at the Officers Club we often discussed various items relating to the missiles and the problems, and our personal hopes for the future, and so forth.

The Court: Were you employed by Convair at the time?

The Witness: No, sir. I was employed by Naval Ordnance Test Stations.

Q. By Mr. Pruitt: You are referring to the period generally 1946, starting in the early part and continuing on up until the termination of your employment at N.O.T.S.?

A. Yes, with the exception of several months when I was in Michigan, I believe that period was from August until November. My father passed away in Michigan and I was absent for several months.

Q. During these discussions with Mr. Nagy and Mr. Wagner, prior to August of 1946, did you discuss the particular problem that gave rise to your experimental work in vane potentiometers?

A. While visiting the Convair plant I saw the device which was previously being used and was told that it was [189] unsatisfactory.

Q. By whom were you told that it was unsatisfactory at that time?

(Testimony of Marlan E. Bourns.)

A. One of the people who told me it was unsatisfactory was a union steward at Convair with red hair who was in charge of installation of components, and I don't recall his name.

Q. Were you in the company of someone from Convair when you saw the union steward, or were you by yourself?

A. He was a Convair employee.

Q. I mean other than you and the steward was anyone else present from Convair?

A. Possibly.

Q. You don't recall at the present time?

A. No.

Q. What device was the union steward referring to at that time?

A. He was referring to a gear operated vane instrument manufactured by Giannini.

Q. Is that the instrument you identified as the Giannini Microtorque potentiometer?

A. The Microtorque potentiometer was one of the components of this assembly, but only that.

Q. What were the other components of that assembly?

A. There was a vane, at least one shaft to various parts which constituted a framework in which were mounted the shafts [190] to which were attached two gears, and to which was mounted the potentiometer.

Q. Was this assembly manufactured entirely by Giannini, if you know?

(Testimony of Marlan E. Bourns.)

A. I don't know. It was my impression that it was.

Q. Was it explained to you in what respects this telemetering system was unsatisfactory?

A. Yes, I think it was. In fact, this union steward showed me this one, and using some words which I can't use here, said, "This thing is all bound up and the pot is loose, and it is really a mess."

Q. Was he showing the particular assembly to you at the time he made that comment?

A. Yes.

Q. While you were at N.O.T.S., telemetering missiles and torpedoes were being carried on as part of your duties, was it not?

A. Will you repeat that, please?

Mr. Pruitt: Read the question, please.

(Question read by the reporter.)

The Witness: I don't understand the question.

Q. By Mr. Pruitt: I will rephrase it. While you were at NOTS, as part of your duties did you have any function in connection with the telemetering work relating to missiles and torpedoes?

A. Relating to missiles. I don't recall any relating to torpedoes.

Q. And the NOTS was doing the same related work that Convair was doing in that field, were they not, at that time?

A. No, I don't believe they were.

Q. Well, did they use potentiometers in connection with missiles at NOTS while you were there?

(Testimony of Marlan E. Bourns.)

A. I don't believe they were making missiles nor using potentiometers at NOTS.

Q. You have a positive recollection that that is the case? A. Yes, sir.

Q. And when was it that you left the employ of NOTS?

A. I returned from Michigan approximately November 5th, and at the time of returning, or prior to returning, was informed that I must either move to Inyokern or quit. And I gave termination notice, and was informed that I had vacation coming and could either take the vacation at that time or work on some test equipment, which I had been making for my own use in the evenings, if I preferred. The date of termination was approximately the middle of November. [192]

The Court: Were you a civilian at that time?

The Witness: Yes, sir.

Q. By Mr. Pruitt: That was about the middle of November 1946, is that right?

A. Yes, sir. I believe November 15th was the exact date.

The Court: Well, they moved part of that facility to Riverside, didn't they, the part that was under the Bureau of Standards? Or you never worked there?

The Witness: No, sir, only on tests that were made at Inyokern.

The Court: Part of the facility that was under the Bureau of Standards was moved and is now in Riverside?

(Testimony of Marlan E. Bourns.)

The Witness: Possibly so. I am not familiar with that.

The Court: All right.

Q. By Mr. Pruitt: Was the steward you mention the only person at Convair that explained to you the problem they were having in connection with potentiometers used in conjunction with missiles?

A. He explained that particular device. Mention was also made to me that other pickup or transducer devices were unreliable and unsatisfactory in their missile.

Q. Were those transducers identified to you? Do you know what they were using at that time?

A. Only in general terms. At that stage they were [193] experimenting with several different basic types, such as not only potentiometers, but variable capacitance, variable inductance, variable reluctance, and other approaches to the problem.

Q. Do you remember any specific person at Convair that you spoke to concerning this problem, other than the shop steward you mentioned?

A. At what period of time?

Q. During 1946, prior to the time you submitted the vane instrument to Convair. Did you talk to Mr. Chaney?

A. I did talk to Mr. Chaney, but I am not sure whether it was prior to that time or subsequent.

Q. Do you remember any persons that you might have talked to other than the shop steward and Mr. Chaney?

(Testimony of Marlan E. Bourns.)

A. Probably various mechanics doing assembly work on the missile.

Q. Well, as I understood your testimony, the first vane drawing was identified as Plaintiff's Exhibit 12-J, which I now show you, is that correct; was that the first one that was made, to the best of your recollection?

A. I believe that is correct, the best that I can recall.

Q. I believe you testified that one which was dated November—I guess it is the shop order that was dated November 27th, or something, indicated to you what the second [194] drawing was, is that correct? A. I believe so.

Q. So that 12-J was drawn by you sometime prior to November 27, 1946, is that your recollection?

A. If that was the date that was indicated.

Q. Prior to the making of the drawing shown in Plaintiff's 12-J, do you recall any persons at Convair that you spoke to other than the shop steward that you have identified?

A. I have already mentioned Mr. Nagy and Mr. Wagner, I believe.

Q. Did you discuss with them this particular problem that Convair was having?

A. I believe so. [195]

Q. Did you discuss that with them after your return from Michigan in 1946?

A. Certainly after my return, since that includes a long period of time.

(Testimony of Marlan E. Bourns.)

Q. You spoke to them before you left, too, did you not?

A. Yes, we did discuss matters in general before I left.

Q. Now, what position did Mr. Wagner have at Convair at that time?

A. I believe he was in their engineering department. I am not sure about any further details.

Q. Did you have any written or oral contract with Mr. Wagner, or any other official of Convair, commissioning you to develop an instrument such as is shown in your drawings at that time?

A. No, sir.

Q. Would it be correct to say that what Mr. Wagner told you was that if you could make an instrument which would be better than the one they were using, they would consider buying it from you?

A. It may be possible that that was implied, since they were dissatisfied with their present device and would presumably buy something better if they could obtain it.

Q. And you had told them, had you not, that you were planning to go into business for yourself, and wanted to find [196] some field where there was a chance of making some money, isn't that right, or words to that effect?

A. I believe I had indicated I have planned to go into the electronics field, possibly making telemetry equipment or oscilloscopes.

Q. In connection with the problem that Con-

(Testimony of Marlan E. Bourns.)

vair disclosed to you at that time, was their primary concern apparently the accuracy of the instrument desired, which I believe was five-hundredths of a degree?

A. I believe accuracy, repeatability, and reliability were the main problems.

Q. Now, the accuracy of five-hundredths of a degree, is that the same as the resolution which you explained earlier today?

A. Not necessarily.

Q. How do you distinguish the five-hundredths of a degree accuracy from the resolution of an instrument?

A. Various factors enter into that consideration. As an example, the gear-operated device had play between the gears such that an uncertainty could exist in the position of the potentiometer brush relative to the vane because of this slop in the gears.

Q. Whereas the resolution is measured from the shaft of the potentiometric element itself; is that right?

A. That is one way of measuring it, or by knowing the [197] number of turns of the wire on the potentiometer it can be determined.

Q. Now, resolution is sometimes expressed in percentage, is it not? A. Yes, sometimes.

Q. And what is the percentage resolution requirement of the instruments, do you recall now, generally speaking?

A. That depends a great deal on the type and

(Testimony of Marlan E. Bourns.)

range of instrument. In the case of some of our longer linear motion potentiometers resolutions as low as half of a tenth of a per cent, or even greater, are encountered.

Q. And resolution is determined, is it not, by the size of the wire you use, and how close each turn is to the next turn, and the type of wire you use; is that correct?

A. I don't believe the type of wire would be a factor.

Q. Well, the type of wire would determine whether the same resistivity existed in the coil a longer period of time? Some wires have a longer period?

A. I am rather confused by several terms. Resistivity, as I understand it, is resistance independent of the size of the wire, and is a physical property of a metal and a metal alloy.

Q. But, primarily, the resolution depends upon the size of the wire, and the closeness of the wire on the resistance element? [198]

A. And the length of it.

Q. And the length of the resistance element?

A. That is correct.

Q. Now, in 1946 were you familiar with any resistors that were being manufactured at that time?

A. I had seen the Giannini Microtorque potentiometer, not only at Convair, but at an exhibit at the Pasadena Civic Auditorium.

Q. Is that the only one that you were familiar with at that time?

(Testimony of Marlan E. Bourns.)

A. What was the breadth of your category, again?

Q. The resistors. A. The resistors?

Q. Yes, wire-wound resistors.

A. Wire-wound resistors. Well, there are fixed resistors which are wire-wound, such as those used in Wheatstone bridges, with which I was familiar.

Q. What is the accuracy of that type of resistor?

A. I am confused by your term "accuracy."

Q. I am attempting to use your term, Mr. Bourns. The percentage figure you used before would be satisfactory. How accurate does a resistor have to be to work accurately in a Wheatstone bridge?

A. It depends upon the particular portion of the bridge circuit in which it is located. [199]

Q. What trade names of resistors were being manufactured in 1946, to your knowledge?

A. I believe Ohmite is one of the manufacturers of a fixed resistor with a vitreous enamel coating.

Q. And was Giannini the only company you knew of at the time that was making wire-wound potentiometers at that time? A. No, sir.

Q. What other companies were in that field at that time, that you knew of?

A. Various well-known manufacturers of radio type volume controls also make wire-wound controls of that same general type.

Q. Was Helipot making potentiometers at that time? A. I am not positive.

(Testimony of Marlan E. Bourns.)

Q. When you contacted Convair in 1946, and became aware of the problem you have described, was that the first time you knew that there was such a problem?

A. Inasmuch as we were working with telemetering equipment, our engineers at N.O.T.S. attended various meetings and discussions, and there learned that transducers or pickups were a major difficulty in the missile and aircraft test field.

Q. Now, you mentioned the crude arrangement that Convair had, consisting of a resistor with a spring and a string attached to it. When did you see that at Convair? [200]

A. I don't believe I saw that.

Q. That was just described to you by one of the personnel at Convair? A. Yes.

Q. Which person was that?

A. Either Dave Wagner or Pete Nagy; I am not sure which.

Q. Did they say what they were using that device to measure?

A. Either the movement of a hydraulic actuator or the movement of a fin or control arm of the missile to which the actuator was attached.

Q. In your opinion, could a rotary pot of some kind have been used for that same purpose at that time?

A. They were using a rotary pot for that purpose.

Q. And was that the same one you described a while ago, the Giannini?

(Testimony of Marlan E. Bourns.)

A. I didn't see it, so I don't know.

Q. I believe you testified that in early 1947 you delivered an instrument to Convair which was similar to Plaintiff's Exhibit 8; is that correct?

A. Yes.

Q. And Exhibit 9 was the instrument, the No. 2 vane type instrument that you made; is that correct? A. Yes. [201]

Q. When did you take this Exhibit 9 to Convair to display to them?

A. I believe within a few days after it was completed and assembled.

Q. And that was sometime in late December or early January of 1946 and 1947, respectively?

A. Early January, I think, yes, sir.

Q. I believe you testified that Convair had no specific criticisms of this particular model; is that correct?

A. Not as many as they had of the previous one.

Q. Whom did you talk to at Convair with respect to Plaintiff's Exhibit 9?

A. As far as I can recall, I talked to Pete Nagy, Dave Wagner, and Mr. Cheney.

Q. And did you display this instrument to each of the persons you have named, at that time?

A. Yes.

Q. Now, who was it at Convair that placed the purchase order for the purchase of the five vane type pots, according to the purchase order dated January 31, 1947, Plaintiff's Exhibit 10-A?

A. I don't know. It may show on there.

(Testimony of Marlan E. Bourns.)

Q. Was this purchase order mailed to you? Is that correct?

A. Yes. Mr. Miller seems to have been the one who [202] signed the order.

Q. Did you have any discussion with Mr. Merrill concerning this purchase order?

A. He telephoned me regarding the order prior to mailing it to me.

Q. And what did he say he wanted? Would it help you to refer to this?

A. Possibly so.

(The document was handed to the witness.)

A. I believe he indicated that he wanted a vane potentiometer with 2,000 ohm resistance, and .05 degree accuracy.

Q. Is that all he said, to the best of your recollection?

A. I believe he mentioned the terms of sale, as I discussed yesterday, the discount, and other matters.

Q. Did he refer to the instrument shown as Plaintiff's Exhibit 9 during that conversation?

A. I don't recall.

Q. Did Mr. Wagner, or any other official of Convair, tell you that the five vane type potentiometers should be substantially the same as Plaintiff's Exhibit 9?

A. I believe they felt that the principles shown in that sample were basically sound, and that the instruments they were purchasing should be similar to that. [203]

Q. So the only change that they wanted, so far

(Testimony of Marlan E. Bourns.)

as you know, was the 2,000 ohm resistance, and the accuracy of .05 of a degree; is that correct?

A. I don't think it is necessarily correct.

Q. What was the total resistance and accuracy of Plaintiff's Exhibit 9, if you recall?

A. I don't know.

Q. Well, can you examine Plaintiff's Exhibit 8 and Plaintiff's Exhibit 9, and point out any other differences in structure between those two instruments?

A. There is a difference in the travel, a difference in the arm, and in the counter-balance, in the stops, in the contact spring, and, of course, as I already mentioned, the instruments delivered did not have a lucite lid. The size is different in all—no, in two directions. The mounting is different. Those appear to be the main differences that I can see.

Q. And the instrument which you delivered to Convair, which was similar to Exhibit 8, was manufactured by Instrument Development; is that correct?

A. They made the parts for that instrument, yes.

Q. And you assembled it; is that correct?

A. Yes, I did part of the assembly work.

Q. At the time you sold the instrument to Convair, in line with the purchase or January 31, 1947, had you published [204] a catalogue for the Bourns instruments?

A. Not as far as I can recall.

Q. Had you assigned a model number to that

(Testimony of Marlan E. Bourns.)

particular instrument that you sold to them at that time?

A. No, I think that was one of the problems, in fact, that there wasn't any very good way of identifying the thing.

Q. Well, is Plaintiff's Exhibit 8 the same as your Model 201 potentiometer?

A. Which one is 8, now, and which is 9?

Q. 8 is the one that is similar to the one that you delivered to Convair, I believe.

A. Yes, that is similar to our 201.

Q. And subsequently the Model 201 was advertised in your catalogue; is that correct?

A. Yes.

Q. I show you now, Mr. Bourns, what purport to be four photostatic copies of order Nos. 1151 and 1194, respectively, which were taken from the files of Instrument Development Company, and ask you if you recognize either of those documents?

A. Yes, these appear to be copies of documents which were in the Instrument Development file.

Mr. Pruitt: I would like to have those marked as Defendants' A, for identification. [205]

(The documents referred to were marked Defendants' Exhibit A, for identification.)

Q. By Mr. Pruitt: Do those documents refer to the potentiometers that were sold to Convair pursuant to the purchase order which is Plaintiff's Exhibit 10-A?

A. Could I see them again, please?

(The documents were handed to the witness.)

(Testimony of Marlan E. Bourns.)

A. The order No. 1194 is applicable to the five potentiometers you mentioned.

Q. And the order marked 1151 relates to Plaintiff's Exhibit 9; is that correct?

A. Yes, that is right.

Q. All right, thank you. Now, at the time you talked to Mr. Wagner concerning the purchase by Convair of the five vane type potentiometers, did you discuss with Mr. Wagner the sale to Convair of certain linear motion potentiometers?

A. Could I have that repeated, please?

Q. Read the question.

(The question was read.)

A. I believe I indicated that I was making experimental models of linear motion potentiometers, and may have shown such a model to him at some time close to that.

Q. Now, the first linear motion potentiometer you made is Plaintiff's Exhibit 6; is that correct?

A. Yes.

Q. And would that have been the one you showed to Mr. Wagner at that time?

A. Yes, shortly after it was completed, I did show it to him.

Q. And when was that completed?

A. In the latter part of December, or early part of January, of 1946 or 1947, respectively.

Q. So it was approximately at the same time you were discussing with Mr. Wagner the sale of the vane type potentiometers; is that correct? You got your No. 2 vane type instruments at or about

(Testimony of Marlan E. Bourns.)

the time you got your first linear motion potentiometer, did you not,— A. Yes.

Q. —about December or early January?

A. I believe that was close to about the same time, that's right.

Q. Now, Plaintiff's Exhibit 4 shows a linear motion potentiometer utilizing a square shaft, does it not? A. Yes.

Q. And that was manufactured by D. B. Millikan Company? A. Yes.

Q. Was this a prototype model manufactured by them? A. Yes.

Q. And when was that manufactured? [207]

A. In the first part of 1947.

Q. Subsequently you ordered a quantity of linear motion potentiometers to be manufactured by D. B. Millikan Company, did you not?

A. Yes, I ordered the parts for those units.

Q. And did you assemble the units?

A. I helped with the assembly, and also the machining.

Q. At D. B. Millikan Company?

A. There, and I believe at home also.

Q. When did you go to the D. B. Millikan Company for the purpose of discussing the manufacture of the prototype, Plaintiff's Exhibit 4?

A. I don't recall the date.

Q. To whom did you speak at the D. B. Millikan Company? A. To Frank Gobel.

Q. Was anyone else present at the time?

(Testimony of Marlan E. Bourns.)

A. I believe Mr. Millikan and Ed Pitzer were present.

Q. And did you have with you at that time Plaintiff's Exhibit 6?

A. Yes, I believe so.

Q. Did you have any drawings or sketches of a potentiometer which you had in mind for D. B. Millikan to make at that time?

A. I don't recall what drawings were taken there. [208]

Q. Do you recall that some drawings were taken at that time?

A. I don't recall whether they were or not.

Q. It is possible that all you had was this instrument, Plaintiff's Exhibit 6, is that correct?

A. That is possible.

Q. At that time was there a discussion concerning the possible changes that would be made in the prototype manufactured by D. B. Millikan from the instrument identified as Plaintiff's Exhibit 6?

A. Yes, sir, I think we discussed the various changes that we could make.

Q. The D. B. Millikan Company was a machine shop subcontractor business, was it not?

A. I guess they did that partly. I think their main product was lawn furniture.

Q. And is it a fact that Mr. Gobels suggested to you that the utilization of a square shaft at the base of an instrument and a bottom plate would

(Testimony of Marlan E. Bourns.)

considerably facilitate the provision of the groove in the base?

A. I believe he felt that a square shaft would facilitate machining of that particular groove.

Q. Did he state the reasons for that at that time?

A. I think it is just a matter of machining preference, whether it is easier to machine a square slot or a [209] round hole as was done previously. In fact, I think I mentioned to him that considerable difficulty was encountered in boring the hole in the other model as accurately as was desired.

Q. In other words, with the round shaft and round bore the hole has to be bored and reamed very accurately or otherwise you will not get an accurate movement of the shaft, is that correct?

A. In both embodiments the workmanship has to be very accurate.

Q. Mr. Gobels' point was that you could get the accuracy easier and cheaper by providing a square slot and the bottom of a piece of metal than you could by boring a hole in a case like this, is that correct?

A. I think he felt that construction might simplify the machining.

Q. The instruments subsequently manufactured by D. B. Millikan were somewhat larger than this prototype, were they not? A. Yes.

Q. Do you remember what size they were? Six inches or so?

A. Eight inches long, I would say.

(Testimony of Marlan E. Bourns.)

Q. When were those instruments delivered to you?

A. The parts for the instruments were delivered to [210] me, and the instruments finally delivered to Convair the first part of April, I believe, April 10 of 1947.

Q. Did you assign a model number to that particular instrument? A. I may have.

Q. You don't recall at the present time?

A. I don't recall whether one was assigned at that time.

Q. Did you ever manufacture any more of that style with the square shaft and the base?

A. We considered making units of that type several years later.

Q. Did you actually make any?

A. I believe we did not. We checked into the procurement of suitable broaches and broaching equipment to make bushings with square holes, and found that the cost of the broach appeared to be excessive and did not proceed with it further.

Q. As far as you can recall at the present time, the prototype, that is Plaintiff's Exhibit 6, and the 40 instruments that you purchased from D. B. Millikan, which were—I am sorry, it is Plaintiff's Exhibit 4, and the 40 instruments which you say were about eight inches longer, were the only instruments that you ever manufactured using the square shaft protruding from the end of the case, is [211] that correct? A. No, sir.

Q. What others were manufactured?

(Testimony of Marlan E. Bourns.)

A. Another unit was manufactured by the Millikan Company.

Q. When was that?

A. Very close to the same time as the one which you have here.

Q. How many instruments were involved in that purchase? A. One piece.

Q. One unit? A. Yes.

Q. Were there any other utilizing the square shaft? A. Not as far as I can recall.

Q. When was that one unit purchased? You say it was in 1947 sometime?

A. I believe the parts were purchased in the first part of 1947.

Q. You testified that there were several, what you referred to as shaft post contact relationship which were considered by you, one being the square shaft, one being a round shaft, one being a side lug, and one being a shaft that protruded from the end and was free to rotate with respect to the contact carrying device; is that correct? A. Yes. [212]

Q. Can you testify with respect to each one of those types the date, approximately, when you manufactured an instrument embodying that principle?

A. The date of the nonrotating round shaft would be that of the manufacture of the model which is now in the record; the square shaft date of initial manufacture is the date of either the one which is in evidence or the other prototype model which I mentioned.

Q. Can you give us the dates on those, Mr.

(Testimony of Marlan E. Bourns.)

Bourns, to the best of your ability? Let's take the square shaft first, that was sometime in January of 1947, was it not?

A. Yes, I believe so.

Q. The prototype, Plaintiff's Exhibit 6, was sometime in December 1946 or January 1947?

A. Yes, that is correct.

Q. When was the first production model of an instrument embodying that shaft principle manufactured by you?

A. That date would be applicable to the next linear motion instruments which we produced after the 40 that were purchased by Convair, and I don't recall when that was.

Q. Were those produced by you?

A. I think part of the machining was probably done in our garage on that group, yes.

Q. Was that the model that became designated as your 102 model? [213] A. Yes.

Q. And that utilizes a round shaft, does it not?

A. Yes.

Q. Now, the shaft principle wherein the shaft is free to rotate with respect to the contact plate as shown on Plaintiff's Exhibit 11, now, when was that particular instrument model 110 manufactured by you, do you know?

A. Are you referring now to the model or that exact unit?

Q. This exact instrument.

A. I think that exact instrument is a relatively recent unit.

(Testimony of Marlan E. Bourns.)

Q. 1954? A. '54 or '53, yes.

Q. What model as shown in your catalog was the first model you produced in which this shaft principle was utilized?

Mr. Lewis E. Lyon: What catalog are you speaking about?

Mr. Pruitt: Any catalog. I want the model number that Mr. Bourns has assigned to the first instrument which he sold which embodied the shaft principle shown in Plaintiff's Exhibit 11.

The Witness: No direct correlation was made with model number with respect to the rotation or nonrotation of the shaft.

Q. By Mr. Pruitt: Well, do you remember what model [214] was the first model that you sold which employed that shaft principle shown by Plaintiff's Exhibit 11?

A. Probably a model 108 or 109.

Q. And when was the first sale of either of those instruments by you?

A. Are you referring to the model now, or to that—

Q. The model 108 or 109.

A. I can't give a very accurate date at this time.

Q. Can you state the year in which it was sold, according to the best of your recollection?

A. Not with much accuracy. I know it was before 1950, inasmuch as we made them in Pasadena.

Q. You mean it was prior to January 1, 1950?

(Testimony of Marlan E. Bourns.)

A. Specifically prior to September 1, 1950, since that is the time we moved to Riverside.

Q. Now, the other shaft principle was the side lug which was attached to the contact carrier; what model of yours was the first to employ that principle?

A. The model 114 was one of the first.

Q. When was that model first sold?

A. Again, I can't give a very accurate answer. I believe it would have been in 1949.

Q. Do you have any records available which would establish the date of first sale of the model 114 potentiometer? [215]

A. I think we may have.

Q. Do you have those here?

A. I don't believe so.

The Court: You search for them. If you find them, bring them in tomorrow.

Q. By Mr. Pruitt: Mr. Bourns, you mentioned in your testimony that current requirements made certain accuracies, specifications for your instruments in various ways; are you referring to requirements that are made by your customers?

A. Many of our customers nowadays have lengthy written specifications.

Q. And those specifications set forth such things as the range, do they? A. Yes.

Q. The resistance? A. Yes.

Q. The sensitivity?

A. That particular term is not generally used.

Q. The resolution?

(Testimony of Marlan E. Bourns.)

A. Sometimes.

Q. The linearity? A. Yes.

Q. The dimensions of the case of the instrument? A. Generally not.

Q. Are there any specifications concerning the size [216] of the instrument?

A. Sometimes there are maximums. At other times the dimensions are discussed between our engineers and the customer's engineers to determine generally what the smallest satisfactory instrument that we can make would be.

Q. Are there any specifications that you get that specify that the outside configuration of the instrument has to be in accordance with certain drawings that are enclosed with the specifications?

A. Some companies have the policy of showing instruments manufactured by a vendor on their own drawings, in the interest of facilitating their purchasing procedure, so we frequently receive drawing of our own instruments, these drawings having been copied from our own outline drawings.

Q. Do you receive any, or have you ever received any specifications which required that the outside configuration of an instrument should be in accordance with a drawing which was not a drawing of one of your instruments?

The Court: I don't know whether he understands that.

Mr. Pruitt: Do you understand the question?

The Witness: Not too well.

The Court: A drawing that wasn't a drawing?

(Testimony of Marlan E. Bourns.)

Do you mean prepared by somebody else?

Mr. Pruitt: He testified, your Honor, as I understood him, that he sometimes got drawings with specifications which [217] were drawings of his own instruments, and I am asking him whether he got specifications which enclosed drawings of an instrument which was not of his own design.

The Court: That is different.

Q. By Mr. Pruitt: Do you understand the question, Mr. Bourns? A. I believe so.

We sometimes receive outline drawings that show outside configurations that are not peculiar to our own instrument.

The Court: In other words, in this business of manufacturing an instrument of high precision sometimes a man gives you an outline and says, "I want an instrument that will conform to this and achieve this"?

The Witness: Yee, that is exactly correct. Because frequently—

The Court: That is why you are in the precision business?

The Witness: Right.

The Court: You are not a tool caster and make castings for heavy tools, and things like that?

The Witness: No.

The Court: Your work is related to precision?

The Witness: Right.

The Court: All right.

Q. By Mr. Pruitt: I call your attention, Mr. Bourns, to Plaintiff's Exhibit 3, plates 5 and 6,

(Testimony of Marlan E. Bourns.)

which purport to show a Bourns model 118 in plate 5 and Edcliff model D in plate 6, and ask you if that is not an instrument the outside configurations of which were dictated by the customer for those instruments, is that correct?

A. In this particular instance our sales engineer Ed Goeppinger contacted Douglas engineers, Douglas had previously purchased our model 108 and model 111-131 in extensive numbers, and had indicated failure of the 111 because of misalignment of the shaft, wherein although we used a very large diameter hardened shaft the shaft was actually made to bend, they thereupon purchased the 114, which is a side shaft unit, as I mentioned, in an effort to solve this alignment problem. It thereupon became evident that they required travels and other features which were not incorporated in the 114. And, furthermore, we strenuously objected to selling the model 114, because of the open slot in the side. We had encountered a great deal of difficulty with binding of the parts from foreign material, and with electrical failures resulting from foreign matter getting on the contacts and elements. Hence our engineer, Mr. Goeppinger, went to the Douglas plant to discuss an instrument—

Q. Confine your testimony to what you know of your own knowledge, Mr. Bourns.

Mr. Lewis E. Lyon: I think he is. [219]

The Court: You asked for an explanation how it came about.

Mr. Pruitt: Your Honor, the question was, were

(Testimony of Marlan E. Bourns.)

the plates that were demonstrated to the witness an instrument the outside configuration of which was dictated by a customer of Mr. Bourns.

The Court: It isn't a question that can be answered yes or no. He has the right to explain it. If not, I will sustain the objection to the question and strike it all out. He can't answer it yes or no, and it wouldn't be revealing. He is trying to explain to you how it came about. He has a right to. You are not dealing with a laborer; you are dealing with a scientist, an expert.

The Witness: Mr. Goeppinger discussed these matters with the Douglas engineers and made sketches showing the space limitations in the missile and described to me the fact that the skin of the missile fit in this general area, which necessitated the removal of corners of the instrument to clear the skin of the missile. He also learned that an object was in this central area. And, further, Mr. Goeppinger, together with their engineers, determined that a mounting by means of elongated slots, which would permit adjustment of the instrument, would be most desirable for Douglas' application and for our manufacture.

On the basis of those sketches this instrument was [219-A] produced, and was subsequently shown on Douglas' drawings.

Q. By Mr. Pruitt: Just so that I understand you, Mr. Bourns, did you say that Mr. Goeppinger or yourself made sketches showing that external configuration of that instrument?

(Testimony of Marlan E. Bourns.)

A. He made sketches showing the space limitations in the Douglas application.

Q. What space limitations did he show on that? The length of the mounting area, for one thing?

A. Generally the length, and particularly the fact that these corners had to be cut off, and that this central area had to remain clear, and that mountings should be provided in this particular area.

Q. And subsequently when Douglas specifications were issued they enclosed drawings which required this exact envelope configuration, is that correct?

A. No, sir; they were simply maximum dimensions.

Q. Was the silhouette the same in accordance with the drawings enclosed by Douglas?

A. It was generally similar.

Q. The instruments which are shown in the drawings marked Plaintiff's Exhibit 20 is the same instrument which is illustrated in Plaintiff's Exhibit 3, plate 6, is it not?

A. Yes, it was intended that those drawings be representative of this instrument. [220]

Q. Mr. Bourns, during 1947 I believe you testified you sold 40 linear motion potentiometers to Convair, and later supplied one further linear motion potentiometer to Convair; is that correct?

A. No.

Q. Would you mind correcting me in what respects I am wrong on that?

(Testimony of Marlan E. Bourns.)

A. I don't recall the sale of one additional unit, that you mentioned.

Q. Oh, I understood you to say you had an additional unit manufactured by D. B. Millikan. Was that not sold?

A. They did make an additional unit. However, that was prior to the manufacture of the 40 pieces, and was a prototype instrument.

Q. Is that the same one that is Plaintiff's Exhibit 4?

A. That was one, and there is another one very similar to that.

Q. There was another prototype; is that correct?

A. Yes, there was.

Q. And was that made before or after Plaintiff's Exhibit 4?

A. I think it was afterward, but I am not positive which of the two prototypes was made first.

Q. Was it perhaps an instrument which was the same size as the 40 which you subsequently ordered? [221] A. No, it was not.

Q. Was it the same size as Plaintiff's Exhibit 4?

A. A little longer, I believe.

Q. Do you have that available? A. Yes.

Q. Do you have that here? A. Yes.

Q. May I see it? A. Yes:

(The witness produced the instrument referred to.)

Q. Now, you have handed me an instrument which appears to be substantially the same as Plaintiff's Exhibit 4, and ask you if that instrument

(Testimony of Marlan E. Bourns.)
was manufactured at the same time as Plaintiff's Exhibit 4?

A. Not at the exact same time, but approximately, I believe.

Q. Does it represent an improvement on Plaintiff's Exhibit 4?

A. I think the main difference between the two instruments is that Exhibit 4 has a pivoted mounting and utilizes Bakelite material, such as is used in a production instrument, whereas the other instrument I have in my hand used a lucite lid for demonstration purposes, and it does not have a pivoted mounting, and instead has four tapped holes in the bottom.

The Court: That would not be practical, and the lucite [222] would not stand the pressure?

The Witness: No, sir.

Q. By Mr. Pruitt: In other words, it is similar to Exhibit 6, with the plastic tap that you used for demonstration purposes? A. Yes.

Mr. Pruitt: I will return that to you, unless Mr. Lyon wants it marked.

Mr. Lewis E. Lyon: I think since it was produced and has been referred to by the witness, it should be marked for identification.

The Court: All right.

Mr. Lewis E. Lyon: It can be marked 4-A.

The Court: Yes, 4-A, so long as it relates to the other.

The Clerk: Is this being offered, or merely marked for identification?

(Testimony of Marlan E. Bourns.)

Mr. Lewis E. Lyon: I think in order to complete the record it should be offered.

The Court: You offer it?

Mr. Lewis E. Lyon: I offer it as Exhibit 4-A.

The Court: All right. Since you are going to give it the number 4-A, it should be offered by the plaintiff. It may be received. [223]

* * * * *

Q. By Mr. Pruitt: Mr. Bourns, yesterday I asked you if you would be kind enough to check your records to determine the date of the first sale of your model 114. Did you have an opportunity to do that?

A. I believe one of our employees did that.

The Court: Do you have it here today?

The Witness: Yes, I believe it is here.

Mr. Lewis E. Lyon: I have had handed to me, your Honor, what is purported to be the first invoice, that I will be glad to show counsel, showing a shipment on July 15, 1950 to North American Aviation Company. If you can read the address, you are a better man than I am. It looks like 827 North Douglas Street, El Segundo, California.

Four each Bourns linear motion potentiometers, model 114-1A, 2 inch travel. I guess that is supposed to be 2,000, but all that is legible is 200. Serial numbers 311,304,301 and 318. This is stated to me to be the first invoice for the first shipment of the 114 type of potentiometers. [246]

Q. By Mr. Pruitt: Mr. Bourns, I will show you the invoice which Mr. Lyon just described, and ask

(Testimony of Marlan E. Bourns.)

you if that does represent the first sale of the Model 114 potentiometer manufactured by you.

A. I instructed the accounting department to produce the first one, and this is the one that they produced.

Q. Now, I also asked you to check your records on the first sale of the 102 model. Would that be in this same book?

A. I don't believe it would be.

Mr. Lewis E. Lyon: If that question was asked, I missed it. They tell me they haven't checked it. Maybe they can find it here now. I will ask that an effort be made to find it. It is in the courtroom.

Q. By Mr. Pruitt: Now, Mr. Bourns, you also manufacture, do you not, a model 118 potentiometer? A. Yes.

Q. And that is one of the devices illustrated in Exhibit 3, which was introduced by your counsel; is that not correct? A. Yes, sir.

Q. Now, on or about what date was the model 118 potentiometer first sold by you?

Mr. Lewis E. Lyon: Would it help you in any of these questions, Mr. Bourns, to have these plates in front of you?

The Witness: No, I am familiar with the model, but I am not sure how accurately I can recall the date.

Q. By Mr. Pruitt: Do you know whether you have records in the courtroom which would indicate that date, Mr. Bourns?

(Testimony of Marlan E. Bourns.)

A. I don't know whether they are in the courtroom. We do have the records.

Mr. Pruitt: If counsel will undertake to get those dates on models 118 and 102, I can go to other questions, and I would appreciate it.

Mr. Lewis E. Lyon: If the material is in the courtroom, we will supply it, but I do not know that we have all the invoices in the courtroom. I don't believe that we have.

That is 102 you are asking for?

Mr. Pruitt: 102 and 118.

Q. By Mr. Pruitt: Well, model 118 was the device which we discussed yesterday concerning the Douglas specifications, was it not?

A. Yes, we discussed that yesterday.

Q. And that Mr. Goeppinger went out to discuss with Douglas engineers the configuration of that model? A. Yes.

Q. In that connection, do you know when Mr. Goeppinger went out to Douglas to discuss the configuration of that model?

A. No, I don't, but I believe I could find that out.

Q. Do you know what year it was in? Sometime in 1951, [248] was it not?

A. It probably was.

Q. Do you know what Douglas engineers discussed that matter with Mr. Goeppinger?

A. I believe it was Rex Cruze. And I can also determine that more accurately.

(Testimony of Marlan E. Bourns.)

Q. Do you know what department Mr. Cruze is in at Douglas Aircraft? A. Engineering.

Q. Do you have a model 118 of your potentiometer here, Mr. Bourns? A. Yes, I do.

Q. Will you produce that, please?

A. Yes.

(The instrument was produced by the witness.)

Mr. Pruitt: Mr. Bourns has produced, at my request, an instrument which apparently does not bear the model number, but which is otherwise identified on the cover thereof as "Bourns linear motion potentiometer patent No. 2515981, other patents pending." Part No. 8002925.

I ask that be marked as Defendants' next in order, for identification.

The Clerk: Defendants' Exhibit D, marked for identification. [249]

(The object referred to was marked Defendants' Exhibit D, for identification.)

Q. By Mr. Pruitt: Mr. Bourns, do you know when this particular model was manufactured,—this particular instrument, I mean?

A. This exact instrument?

Q. Yes. A. About a week ago.

Q. Do you know if the part number which I referred to is a Douglas Aircraft Company part number? A. Yes, it is.

Mr. Pruitt: Do we have a screwdriver that will operate on this device?

(The instrument was handed to counsel.)

(Testimony of Marlan E. Bourns.)

Q. By Mr. Pruitt: Would you mind removing the cover on that, Mr. Bourns?

A. Not at all.

Mr. Pruitt: The witness, at my request, has now removed the cover from Defendants' Exhibit D, for identification.

Q. By Mr. Pruitt: Mr. Bourns, the contact spring arms in this device are mounted on a rectangular member, are they not? A. Yes.

Q. And that rectangular member is in turn carried to [250] two fixed bars in the base?

A. It slides on two round rods in the base, yes.

Q. And do those rods support that member?

A. Yes.

Q. And they also prevent lateral deflection of that member, do they not?

A. I am not clear what you mean by lateral deflection.

Q. Well, what in this instrument prevents the contact arms from moving in a lateral direction that is— A. A transverse direction?

Q. —a transverse direction, yes.

A. One of the two guide rods prevents the movement by engaging a hole through the rectangular part.

Q. Very well. Now, did you make any other instrument, other than the model 118, which had fixed rods to support the carrier member for the contact plate? A. Yes, we do.

Q. What other models do you make with that feature?

(Testimony of Marlan E. Bourns.)

A. 116 and 117. Those were requested to be brought, and I requested it of our assembly department, and they informed me they did not have that available.

Q. Is it correct to say that the two models you have mentioned are dual and triple units that are otherwise substantially similar to the 118?

A. Yes, sir, that is correct. [251]

Q. Very well. I show you now, Mr. Bourns, Plaintiff's Exhibit 6, which, as I recall, is your first model linear motion potentiometer, is it not?

A. Yes, sir.

Q. And that has the feature of a round shaft protruding from one end of the case?

A. That is right.

Q. And that shaft reciprocates in the case, does it not? A. Yes.

Q. That model has, as you can observe through the transparent cover, a slot, does it not, which is visible from the cover? A. Yes, it does.

Q. And the member which carries the contact plate reciprocates in that slot, does it not?

A. Yes.

Q. And does the structural relationship between the member carrying the contact arms and the slot prevent transverse deflection of the contact arms?

A. Will you repeat that, please?

Q. Will you read the question, please, Miss Reporter?

(The question was read.)

The Witness: Partially.

(Testimony of Marlan E. Bourns.)

Q. By Mr. Pruitt: And the structural relationship [252] between those two members determines the limits of the shaft reciprocation, does it not?

A. I am not sure whether it does at both ends. I think it does at the extended shaft position, and at the other shaft position the shaft itself may hit on the end of the body. I can't readily determine which hits first.

Q. Could you determine that by removing the cover? A. I might.

(The witness removes the cover.)

On inspection of the instrument with the cover removed, I find that that member does not stop the travel of the shaft in either direction. In the retracted position the shaft is stopped by the end of the shaft hitting the end of the body—the end of the hole in which the shaft is mounted in the body of the instrument, and in the extended direction it is stopped by a pin which is affixed to the shaft and abuts the end plate, which is affixed to the end of the body of the instrument.

Q. It is true, is it not, that the slot extends from the inside portion of either end plate, does it not? A. Yes, it does.

Mr. Pruitt: Thank you. I certainly appreciate your assistance, Mr. Lyon.

Q. By Mr. Pruitt: Mr. Bourns, I show you Plaintiff's Exhibit 5, which is model 114/1, manufactured by you, and ask [253] you if it is a fact that the transverse deflection of the contact arms in that instrument is prevented by the sizing of the

(Testimony of Marlan E. Bourns.)

member on which the contact arms are mounted within the body cavity of that instrument?

A. I can't follow that explanation. I am sorry.

Q. Would you explain in your own words what prevents transverse deflection of the contact arms in Plaintiff's Exhibit 5?

A. I will have to open it to do so, I believe.

(The witness opens the instrument.)

Transverse deflection of the contact springs is primarily prevented by the post riding within a groove which has been machined within the body of the instrument.

Q. Would you say that the member which appears to be of brownish color in this instrument, and upon which the contact arms are mounted, plays no part in preventing transverse deflection of the contact arms?

A. I believe I stated that it does play—

Q. It does play a part; is that right?

A. —a part, yes.

Q. Now, your model No. 114, as distinguished from model 114/1, which is Plaintiff's Exhibit 5, has a member which is of rectangular or square size, does it not, on which the contact arms are mounted?

A. Yes, sir, that is correct. [254]

Q. That is shown in plate 10 of Plaintiff's Exhibit 3, is it not? A. Yes, sir. [255]

* * * * *

Q. During 1948, Mr. Bourns, can you estimate

(Testimony of Marlan E. Bourns.)

what [280] percentage of your total sales relates to the sale of linear motion potentiometers?

A. In what way?

Q. Percentage of the gross sales dollarwise.

A. No, I can't.

Q. Do you know whether or not it represented a majority of your potentiometer sales?

A. I haven't any idea without going through the records.

Q. Would your answer be the same with respect to your 1949 sales?

A. I don't believe I have an accurate correlation as to dollar volume between one unit and another for any period of time.

Q. And you wouldn't know with respect to your 1950 sales, either? A. No.

Q. Do you know how many—well, tell me how many different models of vane-actuated potentiometers were manufactured by you from the commencement of your operations until the middle of November, 1950.

A. You said different models, or different instruments?

Q. Different models. Would it assist you to look at your catalogues?

A. No. I think about three different models.

Q. Can you give the model numbers of those devices? [281]

A. 201 was one of them.

Q. Was 204 another one?

A. I am not sure. Generally, we would proceed

(Testimony of Marlan E. Bourns.)

201, 202, 203, and so forth, so it is probable that it would be a number such as that.

Q. I show you now Plaintiff's Exhibit 18, referring to Bulletin No. 21, which illustrates and describes a vane potentiometer model 201. That is one of the types of vane potentiometers you made; is that correct?

A. Yes, that is correct.

Q. Do you know how many of those instruments you sold during the period mentioned?

A. What period is that?

Q. From the commencement of your operation until November, 1950.

A. Oh, I could make a very rough guess, but it would not be very accurate.

Q. Do you know how it would compare percentagewise with the sales of other types of instruments made by you?

A. Percentagewise relative to quantity or dollar volume?

Q. Relative to dollar volume.

A. Over that entire period?

Q. Yes.

A. No, I certainly couldn't give that answer.

Q. Would you examine Plaintiff's Exhibit 18, and tell [282] me whether or not it shows any other vane type instruments which were sold by you during the period indicated?

A. The one on the front, I think, is the same one. I believe that is the same picture. [283]

I believe the introductory or general page here,

(Testimony of Marlan E. Bourns.)

which is the second page in the book—well, yes, right. It says it is described in bulletin 21. And bulletin 21 is the one which describes the model 201. So there are three pictures of the 201. One on the front cover, which is substantially identical to the one in bulletin 21, and one on the second page, which is a reverse view of that. That is all that is shown in this catalog.

Q. And those illustrations you referred to are substantially the same as Plaintiff's Exhibit 8, is that correct?

A. They have a bakelite lid, otherwise—the pictures show a picture with a bakelite lid, and the lid has engraving on it, otherwise it seems to be substantially the same.

Q. And was it the model 201 that was the subject of the sale to Convair pursuant to the purchase order dated January 31, 1947, five instruments?

A. I don't know whether we had assigned a model number to the instrument at that time the order was placed with us.

Q. Was it the same instrument as the one ultimately assigned model No. 201?

A. No, I don't believe it was exactly the same.

Q. I will show you Defendants' Exhibit B, another brochure, and ask you to state what vane type instruments are advertised in that document?

A. Model 204 is pictured on the reverse cover.

Q. I show you Defendants' Exhibit C and ask you if there are any vane type potentiometers advertised in that document?

(Testimony of Marlan E. Bourns.)

A. No, there are none shown in this document.

Q. Do you now manufacture a vane type potentiometer?

A. That is not currently being sold, no.

Q. Do you know whether or not it is true that you have sold more model 118 potentiometers than any other linear motion potentiometer that is manufactured by you?

A. No, I don't know whether that would be the case or not.

Depending on the limitations you specified in the first part of your question—can you repeat that? Was that all other linear motion, or any other one model of linear motion, or what?

Q. I will ask you whether or not the largest selling model of linear motion potentiometers was the model 118?

A. Then that would be comparing it with any other one model, but not all other models?

Q. Any other one model, yes.

A. That probably is our largest selling linear motion potentiometer.

Q. And do you know whether the total dollar sales of that model is greater than the total dollar sales of all other types of linear motion potentiometers manufactured by [285] you?

A. No, I certainly don't know that, especially without limitation as to time. [286]

* * * * *

EDMUND W. PITZER

called as a witness by the plaintiff under Rule 43(b) of the Federal Rules of Civil Procedure, being first sworn, was examined and testified as follows:

The Clerk: What is your name, please?

The Witness: Edmund W. Pitzer.

Mr. Pruitt: May I state for the record, your Honor, that Mr. Pitzer has slight difficulty in hearing, so if everybody would speak up it would be of great assistance to him. [307]

The Court: That is all right.

Mr. Lewis E. Lyon: I am glad to know that.

Direct Examination

Q. By Mr. Lewis E. Lyon: What is your occupation, Mr. Pitzer?

A. Manufacturer of electrical instruments, and subcontractor of precision machinery.

Q. What is your training?

A. I was graduated from John Muir Technical High School, after which I worked for the C. S. Greenfield Auto Parts, after which I went to Kay & Burbank Company, another auto parts firm.

Q. In what capacity?

A. I was in charge of the stock room.

Q. After your employment by that company, what was your occupation?

A. I went to work for Otis J. Gardner Company, who did automobile motor reconditioning. I worked as a machinist.

Q. Doing what type of work?

(Testimony of Edmund W. Pitzer.)

A. All types of motor reconditioning work, re-boring, grinding, pin-fitting, turning of pistons, that type of work.

Q. Using what type of equipment?

A. Boring machines, drill presses, special grinding equipment, lathes, and special type reamers, reaming equipment. [308]

Q. Did you take a general mechanic's course at the high school that you attended?

A. No.

Q. What is that? A. No.

Q. Any machine work at all there?

A. Not at high school.

Q. Where did you obtain any machine training?

A. I worked with my father who was in the automotive business.

Q. What type of work did you do in high school, what type of course did you take?

A. I took primarily mathematics.

Q. After you left this automotive company, what type of work were you engaged in?

A. I went to Lawson Time, manufacturers of electric clocks.

Q. Where?

A. South Fair Oaks in Pasadena.

Q. What did you do there?

A. Well, there were just two of us, so we had to do pretty near everything.

Q. All right. Now, what was pretty near everything?

(Testimony of Edmund W. Pitzer.)

A. We had to do the machine work, assemble, and test the clocks. [309]

Q. What do you mean by test clocks?

A. Well, there was really not much to the testing; it was primarily letting the clock run for a period of time.

Q. What did you mean by the machine work?

A. Drilling, tapping, lathe operations.

Q. What did you mean by the assembly?

A. Well, the various components had to be assembled.

The Court: I presume after you stamped out the various parts you put them together, is that true?

The Witness: That is true.

Q. By Mr. Lewis E. Lyon: How long were you in that occupation?

A. I was there for approximately a year and a half.

Q. All right. Then where did you go, and by whom were you employed?

A. Hanglighter Manufacturing Company.

Q. I didn't get the name.

A. Hanglighter.

Q. Located where?

A. On South Raymond.

Q. In Pasadena? A. Right.

Q. In what business was that company?

A. They manufactured piston rings.

Q. And you were employed there as a machinist? [310] A. No, sir.

(Testimony of Edmund W. Pitzer.)

Q. In what capacity?

A. I was in the stock department.

Q. And your occupation there was to take care of the stock, is that correct?

A. That is correct.

Q. How long did you stay in that employ?

A. About one year.

Q. Then by whom were you employed?

A. William Miller Corporation.

Q. What was the business of that company?

A. They manufactured scientific instruments.

Q. Where? A. 363 West Colorado.

Q. Pasadena? A. Pasadena.

Q. And in what capacity were you employed by that company?

A. I was an instrument maker.

Q. What do you mean by an instrument maker?

A. Well, we machined parts for these various instruments, oscillograph and vibration strain equipment.

Q. What do you mean by machined parts for them? What parts did you machine?

A. There are many components to these instruments; [311] We machined any and all.

Q. And what type of machines did you use? A lathe?

A. We used a lathe, drill press, milling machines, tapping machines, grinders.

Q. That was general machine work, then, was it not? A. Yes, of a high caliber.

(Testimony of Edmund W. Pitzer.)

Q. All right. How long were you with the Williams Company?

A. I was there one year.

Q. Then by whom were you employed?

A. D. B. Millikan Company.

Q. What was the business of that company?

A. They sorted aircraft rivets mechanically and automatically.

Q. Did they have any other business?

A. Yes, they went into lawn furniture; they also made an orange juice dispenser. They were in jewelry.

Q. And what were your duties with that company—Machinist?

A. I had the title of production engineer.

Q. Now, let's say what you did. Did you operate the machines? A. No, sir.

Q. Not at all? A. No, sir. [312]

Q. What did you do?

A. I had charge of producing the machines that were used to sort these rivets.

Q. How long did they remain in the rivet sorting business?

A. Approximately five years.

Q. How long were you with them?

A. Five years.

Q. During what years was this employment?

A. 1941 to 1947 with a term of service in between.

Q. What time in 1947?

(Testimony of Edmund W. Pitzer.)

A. Actually, I guess it was 1948, February of 1948.

Q. During that period of time prior to February of 1948 was the company engaged in the rivet sorting business up until February of 1948?

A. No, sir.

Q. How long before February of 1948 did they stop their rivet sorting business?

A. I would say in 1946.

Q. In the latter part of 1946 was that company engaged primarily in the lawn furniture business?

A. Yes, I think it was.

Q. During that period of time—up until that period of time had you ever had any occupation dealing with the manufacture, production of a potentiometer? [313] A. No, sir.

Q. When did you first become acquainted with the manufacture of a potentiometer?

A. The actual manufacture of a potentiometer?

Q. Yes. A. In 1947, I believe.

Q. And what time in 1947?

A. I think towards the middle of the year.

Q. Did you meet any particular individual connected with this matter at that time?

A. Yes.

Q. Who? A. Mr. Bourns.

Q. Where?

A. At the D. B. Millikan Company.

Q. Did Mr. Bourns come to that company to have something made at that time?

A. Yes. Well, at first there was just discussion.

(Testimony of Edmund W. Pitzer.)

Q. And what he brought there to discuss having made was a potentiometer, was it not?

A. That's right.

Q. And as a result of that discussion did the Millikan Company undertake to manufacture parts or to manufacture a potentiometer for Mr. Bourns?

A. After some design work was done. [314]

Q. Were you the party in the Millikan Company with whom Mr. Bourns discussed his desire to have a potentiometer made there?

A. I think I was there at the meeting. There were others.

Q. Who were the others?

A. Mr. Gobel and Mr. Millikan.

Q. How long did the Millikan Company continue in the business of fabricating parts or potentiometers for Mr. Bourns, to your knowledge?

A. I think the latter part of '47.

Q. Did you continue to work with Mr. Bourns after that date in the fabrication of parts or the completion of potentiometers after the Millikan Company association was concluded?

A. Would you repeat that again, please?

Q. Did you continue, after the Millikan Company quit, with either making of parts or the making of entire potentiometers for Mr. Bourns?

Mr. Pruitt: I don't understand that question.

Q. By Mr. Lewis E. Lyon: You say the Millikan Company—

The Court: Start in with when he went to work

(Testimony of Edmund W. Pitzer.)

and how long he stayed with them, and then he will understand it.

Q. By Mr. Lewis E. Lyon: When did you start working [315] for Mr. Bourns away from the Millikan Company? A. Sometime in '47.

Q. Was that before the Millikan Company concluded its association with Mr. Bourns?

A. That I don't know.

Q. You were still at the Millikan Company when Mr. Bourns quit having potentiometers made there, weren't you?

A. Would you repeat that?

Q. I say you were still at the Millikan Company when Bourns stopped having parts made by the Millikan Company, weren't you?

A. I think so.

Q. All right. Then when was that?

A. Late '47.

Q. Prior to the time that Bourns stopped having parts or complete potentiometers made by the Millikan Company, you were also working part time on the outside for Mr. Bourns making potentiometers, were you not? A. I did.

Q. Where? A. At my home.

Q. On your own? A. In my garage.

Q. On your own? A. Yes. [316]

Q. How come that business was not given to the Millikan Company for whom you were employed? A. They did not require it.

Q. Did they know about it?

A. I think so.

(Testimony of Edmund W. Pitzer.)

Q. Why do you think so?

A. Because I believe I told them.

Q. I see. How long did you continue working in your garage and making these parts for Mr. Bourns?

A. The only part that I can remember making is that small potentiometer that Mr. Bourns described, and I think that probably was over a period of probably two weeks, or something like that; maybe more.

Q. What part are you speaking of?

A. Well, it was a prototype miniature potentiometer.

Q. Is it illustrated by one of these exhibits here in the courtroom? A. It is.

Q. Which one?

The Court: Step down if it is easier for you to identify it.

The Witness: It is in one of these catalogs.

Q. By Mr. Lewis E. Lyon: I say, is it represented by one of these models?

A. Oh. No, it is not. [317]

Q. All right. Can you point it out in the catalog, then? A. This one (indicating).

Q. You are referring to the structure which is illustrated on page—well, the page marked “Bulletin No. 91,” is that correct?

A. Yes, sir.

Q. Of Exhibit 18.

That is the only work that you recall doing for Mr. Bourns in your own garage, is that correct?

(Testimony of Edmund W. Pitzer.)

A. I believe that is correct.

Q. And that extended over a period of about two weeks or two weeks and a half, is that correct?

A. I think so.

Q. And that is total elapsed time that we are speaking of, not that you worked all that time all the time for two weeks, but—

A. I think so.

Q. Then did you work for Mr. Bourns at any other place? A. At his garage.

Q. In what? A. In his garage. [318]

Q. Where was that located?

A. On Highview in Altadena.

Q. Was that also a part time employment?

A. No. Oh, I think probably I did, yes.

Q. For how long?

A. I would imagine a month to six weeks.

Q. Were you still working for the Millikan Company at that time? A. Yes.

Q. For the entire period of a month or six weeks? A. On Saturdays.

Q. I am not asking you on what day you state you were working for them. You state you were working part time, and I am trying to find out if that part time employment continued,—your employment by the Millikan Company, continued throughout the period of the part time employment? A. It did.

Q. All right. Did you continue to work for the Millikan Company after about that six weeks of part time employment?

(Testimony of Edmund W. Pitzer.)

A. I think after that I went to work for Mr. Bourns.

Q. And do you know when that was?

A. February of 1948.

Q. What do you mean by that, February 1, 1948? A. Approximately.

Q. If the record shows January 31, 1948, that would [319] still be within your estimate, would it?

A. Yes.

Q. When you were working part time for Mr. Bourns in his own garage, what did you do there?

A. I was doing assembly work.

Q. Assembly of parts made somewhere else?

A. Yes.

Q. Where?

A. I think Wottring Company.

Q. What were you assembling?

A. I think at that time the vane units.

Q. Anything else?

A. I couldn't be sure.

Q. Did you do any machine work in Mr. Bourns' garage?

A. I don't believe so. I don't believe he had any equipment at that time.

Q. Did you continue to do any machine work in your own garage during that period of time?

A. I may have.

Q. Did you have any machine equipment at that time? A. Yes.

Q. What? A. I had a lathe.

Q. What type of lathe?

(Testimony of Edmund W. Pitzer.)

A. A bench type. [320]

Q. What size? A. A 12-inch.

Q. A 12-inch. What make?

A. I beg your pardon. That was a 10-inch Atlas.

Q. Did you have any other equipment besides the 10-inch Atlas?

A. I had a Walker-Turner Drill Press.

Q. What size? A. 15-inch.

Q. Floor or bench? A. Bench.

Q. Any other equipment?

A. Oh, hand tools.

Q. No other machine tools?

A. That's right.

Q. What type of machining did you do for Mr. Bourns? A. At what period?

Q. During this period of part time employment.

A. I don't believe I did any at that time.

Q. You don't believe that you did any during this period of part time employment which extended over a period, as you state, of about six weeks, is that correct,—no machining at all?

A. No, I couldn't be sure about that.

Q. When did you first start to try to wind elements for [321] Mr. Bourns?

A. I would think about three or four months after I went to work for Mr. Bourns.

Q. Was that still in Mr. Bourns' garage?

A. Yes.

Q. Did he have a lathe in his garage at that time? A. Yes.

Q. What type of lathe?

(Testimony of Edmund W. Pitzer.)

A. A bench lathe.

Q. What make? A. A South Bend.

Q. What size? A. 9-inch.

Q. Now, is it your testimony that up to the period of January 31, 1948, in that three months period, that Mr. Bourns acquired that lathe, or was it there when you went there?

A. He acquired the lathe.

Q. During that period of time?

A. Yes.

Q. And when, after your start of employment there?

A. I would think approximately two months after.

Q. Now, when you started to wind the elements, it was necessary, was it not, to change the gear timing of that lathe, in order to produce a satisfactory winding operation? A. Yes. [322]

Q. And in order to do that you purchased certain equipment, did you not?

A. Just extra gears.

Q. What is that? A. Extra gears.

Q. What were those extra gears?

A. By that what do you mean: "What were those extra gears?"

Q. Well, they changed the gear ratio, did they not? A. They did.

Q. And what was the gear ratio that they changed to?

A. Well, I wouldn't know on that. That is pretty complicated. There is a whole chain of gears in a

(Testimony of Edmund W. Pitzer.)

lathe, and it is very common to change them, and in order to change them you just put in your gears with different numbers of teeth.

Q. All right. Now, do you recall what number of teeth that the special gears you purchased had?

A. I think some—one was a 16-tooth gear, one an 18, a 20, and possibly a 24.

Q. Now, was this a 9-inch South Bend quick-change type of lathe that Mr. Bourns purchased?

A. Yes.

Q. And I presume, then, that these 16, 18, 20 and 24-tooth gears that you obtained were to change the fixed gear ratio of that quick-change drive; is that correct? [323]

A. Yes.

Q. They were in addition to the gears which were assembled in the quick-change mechanism of the 9-inch South Bend lathe; is that correct?

A. Well, they were not exactly in addition. They replaced—

Q. They were replacements?

A. Of a gear that was already there.

Q. All right. Now, you determined by this set of four gears, 16, 18, 20 and 24-tooth gears, by replacement of the more or less tooth gear, what your winding speed for the spindle of the lathe was in the winding of these elements, did you not?

A. It is not always possible from the quick-change position to get the feed per turn that you wish, and that is what we were changing.

Q. And you bought four separate gears so that

(Testimony of Edmund W. Pitzer.)

you could find out what was the right speed for that spindle, did you not? A. Yes.

Q. And you determined that one of those gears gave you the right speed,—by replacing one of the 16, 18, 20 or 24-tooth gears, one of them gave you the right speed for a particular size element, did it not?

A. Well, normally, it would be that you would change [324] the gear, and then probably change the gear box several times in order to get the correct feed.

Q. I see. And you determined through that experimentation a correct speed of the drive of the spindle or chuckbox holding the card or element which was being wound, didn't you?

A. We obtained a correct feed, regardless of the speed of the spindle.

Q. I see. Your longitudinal feed speed you determined correctly, for a particular speed of the spindle, then; is that correct?

A. No, for a particular size of wire.

Q. For a particular size of wire. Now, about how heavy were these wires?

A. It varied anywhere from about one-thousandth to four or five.

Q. And what was the most common size that you used at that time?

A. I think about one and one-half.

Q. One and one-half thousandths?

A. Yes.

(Testimony of Edmund W. Pitzer.)

Q. How does that compare with the size of a human hair, do you know?

A. About three-quarters of the size.

Q. That is, the wire was about three-quarters of the [325] size of human hair, or the other way around?

A. No, the wire is about three-quarters of the size of a human hair.

Q. Now, what was the correct feed speed determined by you for that size wire?

A. I wouldn't have the faintest idea.

Q. You don't have any idea at the present time?

A. No, sir.

Q. All right. Do you know what it was for any particular size or for a gauge of wire that you were using, and determined at Mr. Bourns' Laboratories?

A. We usually just changed the ratio until the wire wound right. [326]

* * * * *

Q. By Mr. Lewis E. Lyon: I have been handed a file of this North American shipment, and ask you if you can identify the same?

A. Yes, sir, it is a purchase order from North American to rework three 114-2 potentiometers.

Q. And this is the entire file of that transaction, is it, in your possession?

A. I think so.

Mr. Lewis E. Lyon: I will ask that this file of papers be marked at the present time for identification as the Plaintiff's Exhibit 27 for identification.

The Court: All right.

(Testimony of Edmund W. Pitzer.)

The Clerk: So marked.

(The exhibit referred to was marked Plaintiff's Exhibit 27, for identification.)

Q. By Mr. Lewis E. Lyon: When an instrument is returned to you for repair, rechecking or for some other [345] reworking, by one of these customers, it is always sent back to you either with a debit note showing that they have debited your account, so that they are not paying for the particular instruments returned, or for reworking with an invoice that says, "Rework without charge," isn't that true?

A. I don't pay very much attention to that sort of thing, so I don't know.

Q. You don't know? A. No.

Q. You know that instruments are returned to you for reworking, don't you?

A. Yes. [346]

Q. And for repair? A. Yes.

Q. And you say you don't know, when that is true, how the financial transaction is handled; is that correct?

A. Sometimes they are sent back without any paperwork.

Q. Just for you to rework them?

A. Yes.

Q. Do you make any charge for reworking?

A. Sometimes. Sometimes not.

Q. What determines the fact?

A. Well, whose responsibility it is.

Q. And if the customer believes that it is your

(Testimony of Edmund W. Pitzer.)
responsibility, they don't pay for the reworking,
do they? A. That's right.

Q. And when an instrument is sent back to you
with paperwork from the customer, that paperwork
indicates who they think is responsible for the
error, does it not? A. Usually.

Q. Now, I am going to show you a portion of
Exhibit 27, for identification, which happens to be
what you call the order which was originally dated
July 16, 1951; that is correct, is it not?

A. Yes.

Q. Now, that paper came to your plant at that
time, on July 16, 1951, when merely the portion
filled in in that [347] says, "1 3 only 114-2 potent-
iometers—linear motion in accordance with Bourns
Dwg. 114-1A NPA priority rating DO-A1 is ex-
tended & certified under NPA Reg. No. 2 as
amended," with a further description of the struc-
ture, and carrying an extended column with the
words, "No Charge." That is true, is it not?

Mr. Pruitt: Your Honor, I will object to the
question on the grounds that it is an inaccurate
recital of what the document shows. The document
shows that the original document is dated June 26,
1951, and is on the bottom of this stack of papers,
and it does not say, "No charge" in the column to
the right. On the contrary it says, "Price to be
negotiated."

Mr. Lewis E. Lyon: Well, I am speaking of
this particular one, and it has the extension "No
charge," does it not?

(Testimony of Edmund W. Pitzer.)

The Witness: Right.

The Court: Overruled.

Q. By Mr. Lewis E. Lyon: And that is the way these papers came to you when there was a reworking requested which the customer thought was your instrument and was your responsibility?

A. I didn't think it was our—

Q. I am speaking of a general practice now. You received that kind of an instrument back from the customer [348] with your devices when they thought that the reworking was up to you, because it was your responsibility? That is the way you generally receive those items, isn't it?

A. I think you will note here at the time—

Q. Just a moment. Just answer that question, please. A. Yes.

Q. All right. Now, on that same instrument, under a subsequent date of August 13, 1951, it shows a change from that condition and a realization, in which it says, "Delete No Charge," and putting in the charge; isn't that true?

A. Right.

Q. So that between the period of July and August the customer, in this case North American, realized that an error had been made; isn't that true? A. I am not sure of that.

Q. Under date of August 13, 1951, they sent you an amended piece of paper, didn't they?

A. Here, is it?

Q. August 13, 1951, here on the bottom of this (indicating). A. Yes, sir.

(Testimony of Edmund W. Pitzer.)

Q. And from the face of that amended document it shows that there was an error in the "No charge" entry of July 16, 1951, doesn't it?

A. Right. [349]

Mr. Pruitt: I will object to that, your Honor. The document speaks for itself.

The Court: I don't know what this thing is leading to. I don't know what it is all about.

Mr. Lewis E. Lyon: It is only this, your Honor: A very great point was made when the argument was made that there was no evidence of confusion, there was no sending of one person's products to the other, on the proposition of confusion. This shows that fact.

The Court: Then it isn't a question. Then the fact, which appeared yesterday, that inquiries were directed to them for instruments which were not theirs is a matter on which an argument may be based. But all this hullabaloo about who put on the charge, and whether the customer did this or that, doesn't tend to prove or disprove that.

Mr. Lewis E. Lyon: Only on this proposition, your Honor, that this witness states, or he attempted to testify, that the customer knew when he sent these instruments to them that they were not their instruments, but they were sent to them because of a certain fact which, in my opinion, is contrary to what is shown from the face of the documents.

The Court: I don't think that is material. I don't think you ought to put in your case in a lop-

(Testimony of Edmund W. Pitzer.)

sided manner. He has admitted certain conditions, and you can produce other evidence on the confusion of source. This is putting [350] your case in in a lopsided manner, to put a man on and keep him on cross examination for two or three days, asking him leading questions. And he is not a very clever witness, because his answers show conclusively that he deliberately went about to imitate this, that he had no knowledge in this field, that he only went in and went from a stockman to a mechanic, that he didn't know scientific electricity, and all that. You have already established that.

Mr. Lewis E. Lyon: Then I will just offer in evidence these documents in this file.

The Court: 43-B is not made for an exercise in forensics.

Mr. Lewis E. Lyon: I appreciate that. We are not doing that.

The Court: Well, today you have been doing nothing else.

Mr. Lewis E. Lyon: Well, I will offer in evidence Plaintiff's Exhibit 27, for identification, as Exhibit 27.

The Clerk: Is this admitted, your Honor?

The Court: Yes, it may be received.

The Clerk: 27 in evidence.

(The document marked Plaintiff's Exhibit 27, for identification, was received in evidence.)

The Court: You don't gain anything by having someone make an admission, and then contradict it. Put on your positive testimony, and then let him

(Testimony of Edmund W. Pitzer.)

come back and contradict it. Otherwise I get his defense before I get your complete [351] case, because you are not bound by his testimony, and he himself is. A lot of 43(b) examination is just a waste of judicial time. [352]

* * * * *

Q. Did you take a prototype of a potentiometer with you to Douglas when you called on them in December of 1950? A. Yes.

Q. Will you point out from Exhibit 3 just which instrument, potentiometer, that was a prototype of? A. This is one here.

Q. You are referring to plate 16 of Exhibit 3. You say "This is one"; did you have more than one? A. I think I had two.

Q. All right. What was the second?

A. I don't believe I see one here. [354]

Q. Have you an illustration of that second one anywhere? A. I do not know.

Q. Was that second one given subsequently a model number by Edcliff Laboratories?

A. It was on the order of a "B."

Q. On the order of a "B." Now, we have several B's in Exhibit 3. On plate 12 there is B-P; was it similar to that?

A. It was similar to that.

Q. Plate 12 of Exhibit 3, is that correct?

A. Yes.

Q. Was it different in any respect?

A. It had a different type of contact than shown there.

(Testimony of Edmund W. Pitzer.)

Q. You mean the contact plate which is numbered 67, is that correct? A. Right.

Q. What was the difference in that contact?

A. It was similar to 67 on plate 16.

Q. You mean the contact was similar to the contact shown at 67 on page 16, which is marked Edcliff model AP-2, is that correct?

A. A-P2, yes.

Q. Was it similar in any other respects to A-P2, [355] plate 16 illustration?

A. I don't think so.

Q. What in the Edcliff manner of numbering these different models does the letter "P" mean?

A. That is a new one to me. I have never seen that "-P" number.

Q. As far as you know, does that mean prototype? A. It doesn't mean anything to me.

Q. It doesn't mean anything to you.

I am going to ask you to look at these different Edcliff models in Exhibit 3 and advise me as to whether or not the plate 6 is a fair illustration of your model D potentiometer? A. Yes.

Q. Now, is plate 8 a fair illustration of your model No. A-P1 potentiometer?

A. The P1, I do not recognize.

Q. Is it a fair representation of your model A potentiometer?

A. The contacts are not correct.

Q. What is wrong about the contacts?

A. The contacts should be very narrow.

Q. Very narrow. That is, your statement is that

(Testimony of Edmund W. Pitzer.)

there is too much area of contact between the contact and the wire element shown?

A. No. It is much too wide, the contact spring [356] itself is much too wide.

Q. Have you a sample of this A model potentiometer in court? A. I think we do.

Mr. Lewis E. Lyon: I ask to see it, then.

Mr. Pruitt: I will state for the record at this time, your Honor, that at the time of inspection of Defendants' models by the plaintiffs these stickers marked A-P1 were placed on there by the person representing the plaintiff, to designate that particular instrument.

The Court: All right.

Q. By Mr. Lewis E. Lyon: This instrument which has been handed to me, and which has a sticker on it, I don't mean to imply, because I don't know, whether you put it on there or someone else, A-P1, is a model of Model A potentiometer of the defendant which you referred to, is it?

A. Yes.

Mr. Lewis E. Lyon: I will ask that this model be received in evidence as Plaintiff's Exhibit 28.

The Court: It may be received.

The Clerk: Plaintiff's Exhibit 28 received in evidence.

(The exhibit referred to was marked Plaintiff's Exhibit 28 and was received in evidence.)

Q. By Mr. Lewis E. Lyon: Now, I will refer you to plate No. 11, which is a purported illustra-

(Testimony of Edmund W. Pitzer.)

tion of Edcliff [357] Model B; is that a fair drawing that structure? A. Yes.

Q. Now, I refer you to plate No. 12 of Exhibit 3, and ask you if that is a fair illustration of the Edcliff B potentiometer?

A. It is very similar to a B1.

Q. To a B1? A. Yes.

Q. Does it materially differ from a B1 in any way? A. In the contact, again.

Q. You mean in the width of the contact?

A. Right.

Q. In the illustration of the physical width of the contact? A. That's right.

Q. And that is the only way?

A. I think so.

Q. Now, referring to plate No. 14, is that a fair illustration of an Edcliff model potentiometer?

A. I think so.

Q. What model is that?

A. I don't believe there was any model assigned to that.

Q. You mean any number assigned to it?

A. I don't believe there was any model letter or [358] number assigned to it.

Q. But it is an illustration of an Edcliff model potentiometer made by the defendant, is that correct? A. Yes.

Q. Now, referring to plate No. 16 of Exhibit 3, does that plate correctly illustrate a model of a potentiometer manufactured by the Edcliff Laboratories?

(Testimony of Edmund W. Pitzer.)

A. Well, it is a little incorrect.

Q. A little incorrect where?

A. Well, I think that this does not abut this or come tangent to this point right here (indicating).

Q. You mean that you believe that the part that is marked 64, which I will refer to as the shaft, does not lie flat against the base which is marked 61, is that correct? A. That is correct.

Q. Have you that model here?

Mr. Pruitt: I have it here, if you want it.

The Witness: I think so.

Mr. Pruitt: This was also placed on it at the time of inspection. It is a partial instrument.

Q. By Mr. Lewis E. Lyon: This is the model which you referred to, is it, Mr. Pitzer?

A. Yes.

Mr. Lewis E. Lyon: I will ask that this model be marked as Plaintiff's Exhibit No. 29. [359]

The Clerk: For identification?

Mr. Lewis E. Lyon: I will offer it in evidence as Plaintiff's Exhibit 29.

The Clerk: Is this admitted, your Honor?

The Court: It may be received.

The Clerk: Plaintiff's Exhibit 29 in evidence.

(The exhibit referred to was marked Plaintiff's Exhibit 29, and was received in evidence.)

Q. By Mr. Lewis E. Lyon: I refer you to plate 17 of Exhibit 3, and I will ask you if that plate is a fair drawing of an Edcliff potentiometer manufactured by your company?

A. The bushing here is incorrect.

(Testimony of Edmund W. Pitzer.)

Q. Now, you have referred to a part on plate 17 of Exhibit 3, which I believe is shown in pink and it immediately surrounds the shaft 64?

A. Right.

Q. And you have referred to that as a bushing, is that right? A. Right.

Q. And that is incorrect in what respect?

A. Instead of one bushing, it is two bushings.

Q. It is divided into two spaced bushings, is it?

A. That is correct.

Q. And they are spaced apart longitudinally of the [360] shaft 64, is that correct?

A. That is correct.

Q. In other respects the drawing is correct, is that right?

A. Well, there is no cables shown for electrical connections.

Q. You mean no cables shown—do you have a model L potentiometer here? A. Yes.

Q. There has been a device handed to me which is entitled "Edcliff Part No. 4394-500124 Ser. No. 123"; I will ask you if that is the model L potentiometer to which you refer? A. Yes.

Mr. Lewis E. Lyon: I will offer this potentiometer just produced in evidence as Plaintiff's Exhibit 30.

The Court: It may be received.

The Clerk: 30 in evidence.

* * * * *

Q. By Mr. Lewis E. Lyon: Referring to plate 19 of Exhibit 3, does that plate correctly illustrate

(Testimony of Edmund W. Pitzer.)

a potentiometer manufactured by the Edcliff Laboratories, defendant? A. Yes.

Q. Referring to plate 20 of Exhibit 3, does that plate [361] correctly illustrate a potentiometer manufactured by the Edcliff Laboratories, defendant? A. Yes.

Q. Referring to plate 22, does that plate correctly illustrate a potentiometer manufactured by defendant Edcliff Laboratories?

A. No, it does not.

Q. In what respect is that in error?

A. I don't believe that this type of continuity spring was used.

Q. You are referring to the element therein numbered 31? A. 31.

Q. What type of continuity spring was used?

A. There was a shorting bar used.

Q. Have you a sample of the Edcliff model C-1 in court?

Mr. Pruitt: I don't, Mr. Lyon.

Q. By Mr. Lewis E. Lyon: Have you such a sample? A. I do not know.

Q. You do not know whether one is in existence or not? A. That is right.

Q. Except for the type of continuity spring or contact bar, one of which is replaceable for the other, and indicated at 31, is the drawing correct?

A. No.

Q. In what other respects?

A. The bearing recesses. One was in the cover, one in the base.

(Testimony of Edmund W. Pitzer.)

Q. I see. The bearing which then is illustrated as recessed in the yellow part in 22, instead of being contained in a recess in that yellow part was positioned in a recess in the double line part which is uncolored, is that correct?

A. That is correct. [363]

Q. And the shaft spanned completely from the cover to the base, then?

A. That is correct.

Q. In other respects is the drawing correct?

A. No.

Q. In what other respects is it in error?

A. There was a magnet incorporated in it.

Q. A magnet? A. Yes.

Q. Where?

A. Well, this portion in green is incorrect also. There was a flat disc with a magnet, that had a slot in it, that the disc was rotated in.

Q. Have you a correct drawing of that model C-1 structure? A. I do not know.

Mr. Lewis E. Lyon: I believe there is a purported drawing in the Defendants' trial brief of a C-1 potentiometer. May I see the trial brief, please, that was filed in the court?

The Court: It is probably bound in there. Here is a loose copy, where you will probably find it easier.

Mr. Pruitt: There is only a C-3 and C-2, I believe, in there, Mr. Lyon.

Mr. Lewis E. Lyon: No C-1 here? [364]

Mr. Pruitt: No C-1.

(Testimony of Edmund W. Pitzer.)

Mr. Lewis E. Lyon: If there is no C-1, there is no use in my looking for it.

The Court: Yes, counsel ought to know what he has in his brief.

Mr. Lewis E. Lyon: Yes, that is what I think.

Q. By Mr. Lewis E. Lyon: Does this drawing of plate 22 correspond with a C-3 Edcliff model,—the one that is marked on plate 22? A. Yes.

Q. Oh, I see. Then our error is in the number. That should be a C-3 instead of a C-1; is that correct? A. Correct.

Q. Otherwise plate 22 illustrates a C-3 model of an Edcliff instrument? A. Right.

Q. And a full and more comprehensive drawing of the C-3 instrument is found in the 156-page pretrial memorandum of the defendants; is that correct? A. I think so.

Q. Would you point it out to me?

Mr. Pruitt: May I have the question read, please?

(The record was read.)

The Witness: It is on page 69-A.

Q. By Mr. Lewis E. Lyon: Does this drawing on page [365] 69-A correctly illustrate the C-3 potentiometer manufactured by the Bourns Laboratories—I mean by the Edcliff Laboratories? Pardon me. A. Yes.

Q. Now, there is included also in the pretrial memorandum of the defendants a drawing of a C-2 model Edcliff potentiometer, is there not?

A. Yes.

(Testimony of Edmund W. Pitzer.)

Q. And that is set forth on page 75-A of that pretrial memorandum, is it not? A. Yes.

Mr. Lewis E. Lyon: I wonder if the defendants' counsel has further prints of these two drawings? I do not want to strip anybody's pretrial memorandum, but I would like to place prints of those in evidence, and they are not in evidence by being in a memorandum.

The Court: Have you loose copies of those?

Mr. Pruitt: I don't have them with me, your Honor, but I can certainly produce them at the next session and will be glad to.

The Court: Suppose you give them a number, then, and when we meet on Monday or Tuesday, whichever day we decide on, why, they can be supplied.

Mr. Lewis E. Lyon: All right. I would like to offer in evidence as Plaintiff's Exhibit 31 the drawing, a duplicate [366] of which appears on 69-A of the defendants' trial memorandum.

The Court: All right. It may be received.

Mr. Lewis E. Lyon: And as Plaintiff's Exhibit 32 a print of the drawing, a duplicate of which appears upon page 75-A of the defendants' trial memorandum.

The Court: All right. Copies will be supplied?

Mr. Pruitt: Yes, your Honor.

The Court: They may be received.

The Clerk: 31 and 32 in evidence.

(Testimony of Edmund W. Pitzer.)

(The documents referred to were marked Plaintiff's Exhibits 31 and 32 and were received in evidence.)

[See Book of Exhibits.]

Q. By Mr. Lewis E. Lyon: In the trial memorandum there are drawings of Edcliff B-11 and B-12 linear motion potentiometers, I believe. Are you familiar with those drawings? A. Yes.

Q. Will you point those out to me, please, from the trial memorandum?

Pages 37-A and 38-A, Mr. Witness. I couldn't locate them quickly either. I thought you could do it quicker than I could.

37-A is a drawing of what? A. Of B-11.

Q. And by "37-A", of course, I am referring to the page of that number of the pretrial memorandum of the defendants. [367] Does that drawing show a potentiometer actually manufactured by the defendants? A. Yes.

Q. Was the instrument manufactured before or after that drawing date? A. After.

Q. I see. Then the instrument has only been manufactured after May 27, 1954; is that correct?

A. Yes.

Q. And has any such instrument as that been sold? A. Yes.

Q. When? A. I think in June.

The Court: I didn't hear the answer.

Mr. Lewis E. Lyon: He said, "I think in June."

The Court: Oh, in June. It would be, because it is less than 60 days. Today is the 25th.

(Testimony of Edmund W. Pitzer.)

Q. By Mr. Lewis E. Lyon: Can you say to whom it was sold?

A. I don't know—oh, it was North American.

Mr. Lewis E. Lyon: I will ask if the defendants have a further print of this 37-A drawing, because I would like to offer the same in evidence.

Mr. Pruitt: I will make the same offer as I made before. I will produce loose copies of it at the next session. [368]

The Court: All right. It may be given a number, and the loose copy supplied.

The Clerk: Plaintiff's 33 in evidence.

Mr. Lewis E. Lyon: I will ask that the drawing appearing on page 37-A of the trial memorandum be received in evidence as Plaintiff's Exhibit 33, and that a loose copy be substituted for the one appearing in the trial memorandum.

(The drawing referred to was marked Plaintiff's Exhibit 33, and was received in evidence.)

[See Book of Exhibits.]

Q. By Mr. Lewis E. Lyon: Now, similarly with respect to the drawing appearing on page 38-A, does that drawing likewise appear in full upon a drawing of the character of the drawing appearing upon page 37-A? A. Yes.

Q. That is, what is on page 38-A is cut out of a complete drawing, having the title plate on it—

A. Yes.

Q. —of page 37-A? A. Yes.

Q. Now, this drawing on 38-A is a drawing of an actual instrument manufactured by the Edeliff

(Testimony of Edmund W. Pitzer.)

Laboratories, is it? A. Instruments.

Q. —instruments? A. Yes.

Q. Has such an instrument actually been sold by Edcliff [369] Instruments? A. Yes.

Q. When? A. I think in June.

Q. In June. Is this drawing which appears on page 38-A of the trial memorandum a drawing which was made on or about May 27, 1954?

A. I think so.

Q. And that instrument appearing upon page 38-A is the so-called B-12 linear motion potentiometer, is it? A. Right.

Q. And that likewise was sold to North American Aviation? A. Yes.

Mr. Lewis E. Lyon: I will ask that a duplicate of the drawing appearing upon page 38-A of the trial memorandum be received in evidence as Plaintiff's Exhibit 34.

The Court: All right. It may be received.

The Clerk: 34 in evidence.

(The drawing referred to was marked Plaintiff's Exhibit 34, and was received in evidence.)

[See Book of Exhibits.] * * * * *

The Court: Before you went to the Bourns Laboratories, you had not done any work in this particular field of these particular instruments with which we are concerned in this [371] law suit; isn't that true?

The Witness: That is true.

The Court: And whatever knowledge you acquired, you acquired while working for them?

(Testimony of Edmund W. Pitzer.)

The Witness: Not entirely, sir.

The Court: Well, what—

The Witness: I was in the Service, and I had considerable experience in electronics.

The Court: How long were you in the Service?

The Witness: I was in for 10 months.

The Court: As to these particular devices, whatever knowledge you had, you acquired from them, isn't that true, by applying your previous experience? I am not trying to deprive you of the benefit of your experience, because evidently you became a very valuable man, and they wanted to keep you. But you didn't know anything about these particular devices until you went to work for them, did you?

The Witness: Well, they are very similar to a standard rotary pot—

The Court: Yes.

The Witness: —which is used throughout the industry.

The Court: But you were not engaged in the sale or manufacture of any comparable products—

The Witness: No, I was not.

The Court: —before you went to work with them? You [372] had all sorts of mechanical skills which you applied at various times, ranging from being a stock man to other things relating to an entirely different field, didn't you?

The Witness: That is true.

The Court: All right. * * * * * [373]

HERBERT E. KIDDER,

called as a witness by and on behalf of the plaintiff, having been first duly sworn, was examined and testified as follows:

Direct Examination

Mr. Lewis E. Lyon: Knowing full well your Honor's position with respect to this case and patent experts in general, but for the purpose of establishing a record of some form, I am endeavoring to make it as short as possible, particularly with respect to Exhibit 3, and I am calling the next witness, I might say with an apology, because I am sure that your Honor does not need what we are going to produce.

The Court: If the man is a scientist, I am always glad to hear him.

Mr. Lewis E. Lyon: I mean I am calling a patent expert at the present time.

The Court: I beg your pardon? As I say, if a man is a scientist in the field, I am willing to have it, but often they call a patent attorney, who is merely an advocate, and he does not help the court.

By Mr. Lewis E. Lyon:

Q. Will you state your name?

A. Herbert E. Kidder.

The Clerk: Just a moment. How do you spell your last [395] name?

The Witness: K-i-d-d-e-r.

The Clerk: And the middle initial is "E"?

The Witness: E, right.

The Clerk: Thank you.

(Testimony of Herbert E. Kidder.)

Q. By Mr. Lewis E. Lyon: Where do you reside? A. In Riverside.

Q. What is your occupation?

A. Patent counsel for Hunter-Douglas Corporation.

Q. Located in Riverside?

A. In Riverside.

Q. What is the business of the Hunter-Douglas Corporation?

A. Manufacturers of venetian blind components and fabricators of aluminium, in general.

Q. Are you familiar with the two Bourns patents in suit, the '981 and '980 patents?

A. Yes, sir, I am.

Q. Are you admitted to practice before the United States Patent Office? A. Yes, sir, I am.

Q. I place before you Exhibit 3, and will ask you if you are familiar with that exhibit.

A. Yes, I am.

Q. Did you have anything to do with the preparation of [396] Exhibit 3?

A. Yes, I had the job of preparing the exhibits.

Q. Now, Exhibit 3 contains a plurality of plates, beginning with plates which are purported to be, I believe, duplicates of the drawings of the two patents in suit. Were those prepared under your supervision? A. Yes, they were.

Q. Plates 3 and 4 of Exhibit 3 are, I believe,—well, plates 2 and 4 are breakdowns of two planes of the two patents. Were those breakdowns made by you? A. Yes, they were.

(Testimony of Herbert E. Kidder.)

Q. Following plate 4 there is a plurality of comparative plates of Bourns and Edcliff instruments; is that correct? A. That is right.

Q. Were these drawings prepared under your supervision? A. Yes, sir, they were.

Q. From what?

A. In part from the actual instruments themselves, in part from engineering drawings, and in part from sketches made of models that were examined at Edcliff.

Q. So far as the Bourns structures are concerned, they were prepared, were they not, from actual models? A. They were.

Q. On each of these drawings, these comparative drawings [397] from plate 5 through to the conclusion of these plates there are certain numbers and certain colors added to the drawings. What significance do those colors and numbers have?

A. The colors were assigned to the different components of the claims, so that they could be identified in the several embodiments shown. The components of the claims were given the same reference numerals that are used in the specifications of the two patents.

Q. Now, the application of these colors and numbers to the different plates from plate 5 to the end of Exhibit 3 was done by whom?

A. I beg pardon?

Q. Who applied these colors and numbers that were assigned to the components of the claims in the different drawings and plates in Exhibit 3?

(Testimony of Herbert E. Kidder.)

A. I applied them personally to the first plate of each illustration.

The Court: What are the numbers? Do they correspond to the elements of the patents in suit?

The Witness: They correspond to the reference numerals for the same corresponding elements of the patents in suit.

The Court: That is so far as the Bourns?

The Witness: Yes, that's right.

The Court: And then in the other you merely marked what, in your opinion, is the equivalent?

The Witness: That is right, yes.

Mr. Lewis E. Lyon: That being true, and the opinion of this witness being fully expressed graphically, and in order to save time, I believe that this witness' opinion is fully shown by Exhibit 3, so I will refrain from further examination, and ask if there is any cross examination.

Cross Examination

Q. By Mr. Pruitt: Mr. Kidder, how long have you known Mr. Bourns?

A. About four years.

Q. Have you been retained by him for patent advice during this period of time, from time to time?

A. I have been commissioned by him to file certain patent applications, yes.

Q. Did Mr. Bourns retain you in connection with the present claimed infringement in this action?

(Testimony of Herbert E. Kidder.)

A. He has retained me for the preparation of these books.

Q. Had he retained you in any capacity in that regard prior to retaining you to prepare those books?

A. Yes, he asked me to collaborate with Mr. Lyon in any way in the presentation of the prior art, the file history, and anything that might be helpful to Mr. Lyon in the preparation of his case.

The Court: What is your education, Mr. Kidder?

The Witness: I am a mechanical engineer.

The Court: A mechanical engineer?

The Witness: Yes.

The Court: You are not a patent attorney?

The Witness: I am a patent agent.

The Court: I know the distinction between the two. I mean, you are not legally trained, but you are trained in mechanical engineering?

The Witness: That is right.

The Court: And then act as consultant in matters relating to that art?

The Witness: That is right.

The Court: Of what school are you a graduate?

The Witness: The University of Illinois.

The Court: That is a good school. My son teaches there in physical chemistry.

Q. By Mr. Pruitt: In what year did you graduate from the University of Illinois?

A. 1935.

The Court: My son was not even a graduate at

(Testimony of Herbert E. Kidder.)

that time. My son has only been there for the last six years, after he got his Ph.D at Berkeley.

Mr. Pruitt: Now, I don't know whether I have a question pending or not.

The Court: No. I merely wanted to find out the man's [400] background.

Q. By Mr. Pruitt: I will repeat the question: At or about what date did you prepare the first copy of the plates that are shown in Plaintiff's Exhibit 3?

A. The preparation of the drawings extended over quite a few weeks. The first drawings were made about six weeks ago.

Q. That would be approximately the first part of May, 1954? A. Approximately.

Q. At the time of the preparation of these drawings, did you immediately assign the numbers that are shown on the plates in Exhibit 3?

A. No, the numbers were assigned only about two weeks ago.

Q. So that would be about the middle of June, 1954, or thereabouts? A. Approximately.

Q. Where were you when those numbers were assigned to the plates? A. In Riverside.

Q. And were you alone or were you in the company of other persons at that time?

A. I believe I was alone.

Q. And did you assign the numbers shown on the plates in [401] Plaintiff's Exhibit 3 all at that same time?

A. No, over about a three-day period.

(Testimony of Herbert E. Kidder.)

Q. And during that three-day period you alone did the job of assigning the numbers to these plates; is that correct? A. That is right.

Q. Now, prior to commencing the assigning of the numbers, as shown on those plates, did you have any conference with the attorneys of record for plaintiff in this action concerning what numbers should be assigned to the various elements shown?

A. No, other than the request by Mr. Lewis Lyon to prepare drawings using the patent drawings as a reference, and to the best of my ability assigning the names to the corresponding parts of the drawings.

Q. So this exhibit indicates your own personal opinion of the corresponding features of the Bourns patent with the instruments illustrated; is that correct? A. That is right.

Q. After the numbers were originally assigned, did you have any further conferences with the attorneys for the plaintiff concerning any change that should be made in the numbers assigned?

A. No, there were no changes made, other than one or two errors which were detected, but before they were given to Mr. Lyon. [402]

Q. And the document, as it is now in evidence, represents the version which sets forth your opinion as to the corresponding numbers shown in the patent; is that right? A. That is correct.

Mr. Pruitt: I have no further questions, your Honor.

The Court: All right.

Mr. Lewis E. Lyon: I will offer in evidence at this time Exhibit 3, your Honor, which, as I say, has not been heretofore offered, as Plaintiff's Exhibit 3.

The Court: All right.

The Clerk: 3 in evidence. [403]

* * * * *

Mr. Pruitt: Your Honor, it has occurred to me, if we are back on the record, that Mr. Lyon is still studying whether or not the '980 patent is still an element.

The Court: Yes; we were considering that the day before yesterday. I don't think we can gain much time by going ahead now, gentlemen. It is 3:30.

Mr. Pruitt: I was going to say that I don't know which documentary evidence to introduce until I get his answer.

The Court: Supposing we adjourn now, and then I will ask Mr. Lyon to tell counsel.

Mr. Lewis E. Lyon: I will write it down.

The Court: '980 is the one that has seven claims?

Mr. Pruitt: Yes, your Honor.

Mr. Lewis E. Lyon: Yes, your Honor.

The Court: Most of your brief was devoted to that one.

Mr. Pruitt: The '981 patent, your Honor, is, of course, the divisional patent.

The Court: It is a one-claim patent.

Mr. Pruitt: It is a divisional patent.

The Court: Yes, it is a split patent.

Mr. Pruitt: And the file history is the same as the '980, to a large extent? [405]

The Court: Yes. However, they didn't allow them to split the invention. You don't mean to say the Patent Office does that?

Mr. Pruitt: No, your Honor. The reason it is treated that way, the '981 seems to be the one that most of the instruments are claimed to infringe.

The Court: The two references they give are two references that are in the other one.

Mr. Pruitt: That is right, your Honor; Rubinstein and Batcheller.

Mr. Lewis E. Lyon: That is correct.

The Court: All right. Then we will recess the case until 1:00 o'clock on Monday. [406]

* * * * *

Mr. Pruitt: Your Honor, at the last session I agreed to produce certain loose copies of exhibits, which I offered to produce for Mr. Lyon, and I would like to produce those now. [410]

* * * * *

Mr. Pruitt: And I have a copy of a drawing of the B-11 model, which was introduced as Exhibit 34 at page 369 of the transcript.

Mr. Lewis E. Lyon: This drawing is Exhibit 33, then.

Mr. Pruitt: And a copy of the drawing of the B-12 model, which was introduced as Plaintiff's Exhibit 34 at page 370 of the transcript. [411]

* * * * *

VIRGIL F. SIMONICK

called as a witness by the defendants, being first sworn, was examined and testified as follows:

The Clerk: What is your name, please?

The Witness: Virgil F. Simonick.

The Clerk: How do you spell your last name?

The Witness: S-i-m-o-n-i-c-k.

Direct Examination

Q. By Mr. Pruitt: Mr. Virgil, where is your address, please?

A. 15843 Moorpark, Encino.

Q. By whom are you employed?

A. Douglas Aircraft Company in Santa Monica.

Q. In what capacity are you now employed by Douglas Aircraft?

A. I am classified as a design specialist, group leader in charge of missile hydraulics.

Q. How long have you been employed by Douglas Aircraft? A. Since June 29, 1939.

Q. And you have been in your present job for how long, Mr. Simonick? A. May 1946.

Q. And what was your education, your college education, Mr. Simonick?

A. Well, I received a Bachelor of Science and Bachelor of Aeronautical Engineering degrees at the University of Detroit, Detroit, Michigan.

Q. What year was that? A. 1933.

Q. Upon leaving the university where did you first practice your profession?

A. At Continental Motors.

Q. Where is that located? A. Detroit.

(Testimony of Virgil F. Simonick.)

Q. What was the nature of your duties at that organization?

A. Designing layout man in aircraft engines.

Q. How long were you employed at Continental Motors [418] in that capacity?

A. Approximately a year.

Q. What was your next employment?

A. My next employment was with Evans Products, also of Detroit. [419]

Q. And what business was that company engaged in at that time?

A. The design of—the development and manufacture of instruments, pumps, aircraft pumps, at that time boats, air conditioners, automatic loading devices for the automotive industry, automatic transmissions, and carburetors.

Q. And what was the nature of your duties at that organization?

A. I started as design layout man working on boats. Later on I became layout man on hydraulic pumps, worked on automatic transmissions as layout man, and later production engineer, and did a certain amount of work on air conditioners.

Q. Following that employment where did you go?

A. Leaving Evans Products I went to the Naval Aircraft factory for a short time.

Q. Where was that located?

A. Philadelphia.

Q. How long were you there?

A. About four months.

(Testimony of Virgil F. Simonick.)

Q. Following that experience, did you come to Douglas at that time? A. Yes, I did.

Q. And in what year was that, again?

A. In 1939; June of 1939. [420]

Q. At the outset of your employment by Douglas, what capacity did you fill?

A. I was the layout man on superchargers, and supercharger gear changers.

Q. Following that did you assume some other duties?

A. Following that I became for a short period, about four months, a layout man on hydraulics equipment. Thereafter I became lead man, a position I held for approximately three years, until I became a group leader.

Q. And that is group leader in the hydraulics groups; is that correct? A. That is correct.

Q. Does that group have any connection with the guided missile program at Douglas Aircraft?

A. Yes, it has.

Q. How long has it had such a connection?

A. Since 1946.

Q. Were you assigned to that group at the same, or at or about the same time as Douglas undertook work in connection with the guided missile program?

A. No, Douglas undertook work on guided missiles before 1946. The type of guided missiles or type of guidance that we are now using first came into being in 1946. At that time I was first man on that type of job.

(Testimony of Virgil F. Simonick.)

Q. Well, generally speaking, Mr. Simonick, what function [421] does the hydraulics group perform in the Douglas missile program?

A. We design the hydraulics components of the missiles, and also the related linkages that actuate the control surfaces.

Q. And does that also involve the measurement of the movements of those control surfaces in the missile? A. Yes, it does.

Q. And that, in turn, involves potentiometers, does it? A. Yes.

Q. Are the potentiometers used in connection with your work used both for telemetering and also for control purposes? A. Yes, sir.

Q. And are adjustable resistors or potentiometers used as a component part of the entire telemetering system which is incorporated in a missile?

A. Yes, sir.

Q. Now, is the entire telemetering and control system that is contained in a missile a complex structure, or is it a simple structure?

A. It is extremely complex.

Q. And one of the components in that complex structure is the potentiometer; is that correct?

A. That is correct. [422]

Q. One or more potentiometers?

A. That is correct.

Q. As a part of your duties at Douglas in connection with the missile program, are you required to be familiar with and understand both the mech-

(Testimony of Virgil F. Simonick.)

anical and electrical functions of the potentiometers used in connection with your work?

A. Yes, sir.

Q. Now, in May of 1936, or thereabouts, what type of potentiometers were being used for the purpose for which you now use such instruments as are produced by Mr. Bourns?

A. Well, we began our designs in May, 1946. The designs had gone to a sketch point a little bit later than that. At that time we were using a rotary type of potentiometer.

Q. Manufactured by what company, or companies? A. Fairchild Camera Company.

Q. That is the Fairchild Camera and Instrument Company in New York, is it?

A. That is right.

Q. Were there any other manufacturers that were supplying potentiometers for that purpose?

A. Yes, sir.

Q. What other manufacturers?

A. Well, Giannini.

Q. Giannini Instruments. That is a company in Pasadena; [423] is that correct?

A. That is correct.

Q. Was the Chicago Telephone Supply Company supplying potentiometers for that purpose at or about that time?

A. A little bit after that time.

Q. In what year, approximately?

A. '48. I would say around '48.

(Testimony of Virgil F. Simonick.)

Q. Now, was any specific model of the Giannini Instrument used primarily for that purpose?

A. In the equipment over which I had jurisdiction we did not use any Giannini potentiometers.

Q. Did you use a Fairchild potentiometer?

A. We did.

Mr. Pruitt: I will ask the clerk to mark this document for identification.

The Clerk: Defendants' Exhibit H, marked for identification.

(The document referred to was marked Defendants' Exhibit H, for identification.)

Q. By Mr. Pruitt: Mr. Simonick, I show you a sheet, which I will state was taken from the current catalogue of the Fairchild Camera and Instrument Company, and showing an illustration and specifications of a Type 736 Fairchild potentiometer, and ask you if the potentiometer you were using, as indicated, was similar to that model shown in [424] Defendants' Exhibit H, for identification.

Mr. Lewis E. Lyon: Just a moment. I will object to that on the ground that there is no pleading as to which this matter could be material, as to prior knowledge of use by Douglas, that no notice was given of any such reliance, and, further, upon the ground that the question asked is leading and suggestive, and does not call for primary, but secondary evidence.

Mr. Pruitt: Your Honor, this is not offered in connection with the prior use, but merely as a preliminary question to examine the witness about

(Testimony of Virgil F. Simonick.)

the methods that were in use in 1946, prior to the alleged invention by Mr. Bourns, and, further, in rebuttal to the testimony that Mr. Bourns gave on the same subject, as to what people were doing in the missile program at the time of the alleged invention.

Mr. Lewis E. Lyon: Still, your Honor, if anything is to be relied upon either to show anticipation or the prior state of the art, the Code requires 30 days' notice.

The Court: I think the form of the question is objectionable, even limited as it is to the scope just mentioned.

Mr. Pruitt: I will be happy to reframe it, your Honor.

The Court: All right.

Q. By Mr. Pruitt: Mr. Simonick, state whether or not the potentiometer illustrated is similar or the same type of Fairchild potentiometer used in the missile program, as you [425] have previously testified.

Mr. Lewis E. Lyon: That is objected to, your Honor; the same objection as previously stated, and, further, on the ground of its being entirely immaterial.

The Court: I think this witness is an expert, and I think you could ask him, rather than giving him a comparative question, you could ask him what was being used. Let him tell us what it compares with, or what type it is, or show it to him and ask him, "Have you ever seen one of these be-

(Testimony of Virgil F. Simonick.)

fore?" Let him tell us what it is. See if he recognizes it without a leading question.

Mr. Pruitt: Very well, your Honor.

Q. By Mr. Pruitt: Mr. Simonick, can you describe what type of Fairchild potentiometer was being used at that time?

A. Yes, it was a rotary—

Mr. Lewis E. Lyon: Just a moment. I object to that upon the ground it is without the pleadings. Section 282 of Title 35 of the United States Code requires notice of any such material.

The Court: He is trying to show prior use by prior art.

Mr. Lewis E. Lyon: The section applies to prior art and requires 30 days' notice as to prior art under Title 35, Section 282 of the United States Code.

Mr. Pruitt: I am also trying to show, if I might [426] interrupt—

The Court: He is not offering it to show the condition of the prior art, but showing the problem that Mr. Bourns testified existed did not exist. As he has said, he is limiting it to that purpose, and he can do that. I am familiar with the rule that certain types of prior art have to be pleaded if they are relied on as anticipation, and that prior use must be pleaded and special notice given.

Perhaps the relevancy of this testimony does not appear now because counsel stated he was putting the witness on out of order.

(Testimony of Virgil F. Simonick.)

Read the last question, please.

(The question was read.)

The Court: Overruled.

The Witness: I beg pardon?

The Court: You may answer.

The Witness: Substantially the type shown on this exhibit.

Mr. Pruitt: I will offer this for the limited purpose which I previously stated, your Honor, as Defendants' next in order.

The Court: It may be received.

The Clerk: H in evidence.

Mr. Lewis E. Lyon: I will object before the receipt, if I might, on the ground that it has not been properly proven or identified, and on the further ground that it cannot serve [427] any—

The Court: You can bring that out on cross examination. Overruled.

(The document, marked Defendants' Exhibit H, for identification, was received in evidence.)

Q. By Mr. Pruitt: In the use of the rotary potentiometers which you have mentioned, was some type of linkage required in order to connect the potentiometer into the system?

A. Yes, there was. [428]

Q. What type of linkage was used for the purpose?

A. A linkage consisting of a mounting for the potentiometer that could be externally adjustable; a gear mounted on the shaft of the potentiometer

(Testimony of Virgil F. Simonick.)

meeting with a gear on a driven member from which we desired to determine position location.

Q. Were the potentiometers then used in that manner precision instruments, would you say?

Mr. Lewis E. Lyon: That is objected to as leading and—

The Court: He can describe it.

Q. By Mr. Pruitt: What type of potentiometers were used then from the standpoint of accuracy and precision, Mr. Simonick?

A. Well, the potentiometers used at that time were entirely satisfactory from the standpoint of our requirements.

Mr. Lewis E. Lyon: Your Honor, I move to strike that as not responsive to the question; and also as entirely too indefinite to mean anything.

The Court: I will go further. It is meaningless. I don't know what his requirements were.

We must bear in mind that in this court the expert's opinion doesn't rise above the reasons he gives for it, and an expert who gives me general answers without giving reasons to support them, I will disregard, you see, just as I instruct jurors to disregard. So you are not helping your cause by [429] putting a man on and asking him leading questions and having him give me leading answers and meaningless answers, such as the one he gave.

Mr. Pruitt: All right, your Honor. I will bring it out more definitely.

The Court: I am striking the answer not because it is not responsive, because that isn't a good ob-

(Testimony of Virgil F. Simonick.)

jection in this court. In the state court it is, because the legislature has made it so. It is not a good objection, that an answer is not responsive. If the answer is material it doesn't have to be brought out by a particular question. But the stupid legislature at the request of some stupid lawyers put it in the Code of California. But we don't recognize that. If it is material, it doesn't matter that you ask him the question. It isn't necessary.

Q. By Mr. Pruitt: Was the rotary pot used in the manner that you have described used for the same or similar purpose as the pots that you now acquire from Mr. Bourns?

Mr. Lewis E. Lyon: Your Honor, we object to that as a compound, complex question.

The Court: Yes. I haven't even heard that he has acquired any from Mr. Bourns. He hasn't testified to that effect. I don't know that you intend to be bound by the statement of Mr. Bourns, so you will have to have him testify that he is doing that, first. [430]

Q. By Mr. Pruitt: During the last several years, Mr. Simonick, has Douglas acquired linear motion potentiometers from the Bourns Laboratories? A. They have.

Q. And what use is made of those linear motion potentiometers?

A. They are used to measure the same motions that were formerly measured by the rotary potentiometers.

(Testimony of Virgil F. Simonick.)

Mr. Lewis E. Lyon: That doesn't mean anything.

Q. By Mr. Pruitt: How do the results compare between the use of the linear motion potentiometer for that purpose and the rotary motion potentiometer for that purpose in 1946?

Mr. Lewis E. Lyon: Your Honor, I am going to object to that as assuming a fact not in evidence. Actually it is a comparative question for which the basis is not before the court, and would mean absolutely nothing in the evidence.

The Court: I will overrule the objection. Go ahead. You may answer.

The Witness: Will you repeat the question, please?

The Court: Repeat the question.

(The question referred to was read by the reporter as follows: "Q. How do the results compare between the use of the linear motion potentiometer for that [431] purpose and the rotary motion potentiometer for that purpose in 1946?"")

The Witness: The results are identical, you can use either one.

Q. By Mr. Pruitt: How does the degree of resolution of the linear motion pots which you have acquired compare to the resolution of the potentiometers then used for those purposes?

A. Comparable.

Q. How do the windings on the resistance coil compare with respect to the size of the wires used then as compared to now?

(Testimony of Virgil F. Simonick.)

A. The wire sizes are slightly larger than those found on the Bourns pot.

Q. What size wire was used in the rotary pots used in 1946?

A. Two thousands in diameter.

The Court: The construction or the means are different, assuming that they achieve the same result?

The Witness: That's right, your Honor.

Q. By Mr. Pruitt: Were the rotary pots then used for the purposes described reliable electrically and structurally?

A. They were very reliable.

The Court: Why did you change? [432]

The Witness: The linkage connecting the pot to the member that it was sensing was rather expensive, and by switching to a linear type potentiometer, rather than a rotary, we were able to achieve economics.

Q. By Mr. Pruitt: Is there a difference from an electrical standpoint between the principle upon which the pots used in 1946 operated and the principle upon which the linear motion potentiometers now operate?

A. If by principle you mean rubbing one coil or a series of coils with an electrical connection, the principle is no different.

Q. In your opinion, Mr. Simonick, was a major drawback to the success of the missile program in 1946 the use of the rotary motion potentiometer with linkage as you have described?

(Testimony of Virgil F. Simonick.)

A. Well, if I may state it this way: If that were the only drawback, we would have been happy at that time.

The Court: Well, state the other drawbacks.

The Witness: Unfortunately, there were a lot of other drawbacks, because other electrical components lacked—the state of the art of other electrical components, as well as other components in the missile from propellants on down to hydraulic valves were in a far worse state of the art than potentiometers.

Mr. Lewis E. Lyon: That is comparing bad eggs, I take [433] it, is that what you mean?

The Witness: Well, there were some noteworthy points that were reliable in those days, and I would say offhand potentiometers were one of the most reliable elements we had in those days.

Mr. Lewis E. Lyon: It is still what I said.

Mr. Pruitt: Are you finished, Mr. Lyon?

Mr. Lewis E. Lyon: Yes.

The Court: All right.

I presume I set a bad example. I am permitted to ask a question.

Mr. Lewis E. Lyon: Pardon me, your Honor. I stand corrected. Rather, I sit corrected.

The Court: You would admit that the linear potentiometer introduced some advantages and benefits, other than mere size and cost that made its use preferable to what preceded, is that correct?

The Witness: The fact that we could eliminate

(Testimony of Virgil F. Simonick.)

some of the costs in linkage was the major factor in going to the linear type.

The Court: Bulk?

The Witness: No. The others were about the same size, but spread a different way, you might say.

Q. By Mr. Pruitt: Did you meet Mr. Bourns during the time when you were employed in your present position [434] at Douglas?

A. As I recollect, it was the latter part of '48.

Q. At that time did Mr. Bourns demonstrate to you a model of an instrument manufactured by him? A. He did.

Q. Can you describe the instrument he showed you at that time?

A. Roughly it was a transitory potentiometer with a three-sixteenths diameter, or five thirty-seconds diameter piston, and it was about one by one square and I think it was around four inches long.

Q. You say that was sometime in 1948?

A. As I remember.

Q. I show you an instrument that has been introduced in evidence in this matter, which is Plaintiff's Exhibit 6. I note that it is not of the same length as you have described. Is that model similar to the one that you have just described?

Mr. Lewis E. Lyon: Which one is that?

Mr. Pruitt: Exhibit 6.

The Witness: I would say that it is, yes.

The Court: Is that the transparent one?

(Testimony of Virgil F. Simonick.)

Mr. Pruitt: Yes.

The Court: There are so many of them I wanted to keep it in mind. [435]

Q. By Mr. Pruitt: Did the one Mr. Bourns showed you at that time have a piston of circular section? A. Yes, sir.

Q. Did you ever purchase an instrument from Mr. Bourns—that is, by “you” I mean Douglas Aircraft—which is identified in Plaintiff’s Exhibit 3 as the Bourns model No. 108?

A. Do you have another view of it? Yes.

Q. Do you recall whether or not the shaft in that device rotates with respect to the carrier member for the contact elements?

A. By our specifications we required that it rotate.

Q. Did the model which Mr. Bourns first showed you have a shaft which rotated in that manner?

A. That I couldn’t say.

Q. Prior to the time that you first saw Mr. Bourns, had Douglas Company ever considered manufacturing a potentiometer in a rectilinear case? A. Yes, we did.

Mr. Lewis E. Lyon: I object to that as entirely immaterial, as to whether they contemplated going in the same business or not.

Mr. Pruitt: I think it is material, your Honor, to show that the development, if any, was obvious to persons who were skilled in the art. [436]

The Court: That cannot be testified to by anybody. The proof of the pudding is in the eating.

(Testimony of Virgil F. Simonick.)

The fact is they didn't make it, but they are buying it. You can't prove what somebody else thought, you know. The fact is that many of these things someone thought of and didn't do anything about, and then somebody thinks of it and achieves something.

Mr. Pruitt: I understand that.

The Court: And the man that thought and didn't do anything about it can't come in and say, "That is nothing; I thought of it, too, and didn't get around to making it." Not that this witness so testified, but it is immaterial testimony. The inference is to be drawn from facts, not from somebody's thoughts.

Strike out the answer. I will sustain the objection to the question. It is not material.

Q. By Mr. Pruitt: Mr. Simonick, I show you Plaintiff's Exhibit 5, which is identified as a Bourns Model 114-1 potentiometer and ask you if you have ever seen one of that type?

A. I have seen one similar to that, yes.

Q. And at or about what time did you see a potentiometer of that type?

A. I think it was in the early part of '51.

Q. Had you had any previous discussions with Mr. Bourns or any of his employees with respect to the feature [437] of this exhibit in employing a side lug?

Mr. Lewis E. Lyon: Your Honor, I am going to object to that as leading and not a proper method of examination. If there was a conversation, let's have the foundation laid.

(Testimony of Virgil F. Simonick.)

The Court: I don't know what it is related to, except it is subsequent to the patent application. The patent application is dated February 20, 1948. Any discussion with a prospective customer as to experiments being made just doesn't mean anything, doesn't destroy the value of an invention. It is quite evident that he was discussing them and trying to figure something out that would fit the particular thing.

Mr. Pruitt: Your Honor, this is not offered on the patent issue, but rather to show that the Douglas Company made certain requirements for the instrument purchased by Douglas, and I want to show they made certain requirements of the defendants to produce instruments that the customer required.

The Court: That doesn't mean anything. What has that got to do with any of the issues in this case?

Mr. Pruitt: It has something to do with the charge of the plaintiffs that the defendants have created confusion in making instruments like those of the plaintiff.

The Court: I don't see that that is any question, the fact that they made demands.

I will sustain the objection.

Q. By Mr. Pruitt: Did Douglas ever purchase any of [438] the Model 114 instruments from Mr. Bourns?

A. I don't recall what—was it the one you showed me?

(Testimony of Virgil F. Simonick.)

Q. Yes, it was Plaintiff's Exhibit 5 which I show you again.

A. I don't recall that we bought any like that.

Q. Mr. Simonick, what in your opinion was the biggest single problem in connection with procuring for Douglas' purposes a linear motion potentiometer that would work satisfactorily for your purposes?

A. Ingenuity in making the unit small, and ingenuity you might say, in manufacture of the parts, such as there was practically no backlash, and things of this type are generally a matter of mechanical ingenuity rather than electrical.

Q. I show you now, Mr. Simonick, what is identified as Defendants' Exhibit D and is a Bourns potentiometer bearing part No. 8002925, and ask you if you have ever seen an instrument of that character? A. I have. [439]

Mr. Pruitt: I hand this instrument to the clerk in disassembled form, and ask that it be marked as Defendants' Exhibit next in order, for identification.

The Clerk: Defendants' Exhibit I, marked for identification.

(The instrument referred to was marked Defendants' Exhibit I, for identification.)

Q. By Mr. Pruitt: I show you this instrument, Mr. Simonick, in disassembled form, and ask you if you have ever seen an instrument like that.

A. Yes.

Q. Can you identify that instrument?

(Testimony of Virgil F. Simonick.)

A. Yes.

Q. What is it? A. An Edcliff.

Q. Now, with respect to Defendants' Exhibit D, in the manufacture of that instrument what would be the effect upon the electrical qualities of that instrument to substitute for the resistance coil contained therein a resistance coil from a rotary motion potentiometer?

Mr. Lewis E. Lyon: That is objected to as entirely immaterial, and unless the two were a rotary motion, it could not be substituted.

The Court: Overruled. You may answer, if you can.

The Witness: You could use the same elements in either— [440] the same resistance elements in either the rotary or the transitory type. Of course, in the rotary type, to convert it into a linear type, you just have to take the arc and spread it flat.

The Court: In other words, the two parts are not interchangeable?

The Witness: They are not interchangeable.

The Court: And you would have to make a construction to accommodate one or the other?

The Witness: That is correct, your Honor. If you originally made a rotary potentiometer, you could not take the element out of it and make it a linear potentiometer without doing some rework to it.

The Court: That is right. Then in using it, you would have to have a different—

The Witness: That is right.

(Testimony of Virgil F. Simonick.)

The Court: —place on the missile, differently arranged, depending on whether you used the one or the other; isn't that correct?

The Witness: As I understood the question, your Honor, I thought what he was talking about primarily was the resistance element.

The Court: Yes, I know what he is talking about, but I also know what I am talking about.

The Witness: Well, it is pretty hard to say how you could [441] take a rotary actuator and convert it into a linear component, without component modification.

The Court: That is right.

Q. By Mr. Pruitt: Do you know what part, if any, Douglas played in the design of the instruments which I have displayed to you?

Mr. Lewis E. Lyon: That is objected to.

The Court: The objection is sustained. There is no plea of joint invention, or invention by others. You are not attacking it on that ground.

Mr. Pruitt: Your Honor, again, as I understand the plaintiff's theory, they have attempted to prove that the defendants have copied an instrument of the plaintiff's and have sold it to customers, and that the customers have been confused with respect to which instrument is plaintiff's. I think I am entitled to show through this witness that the Douglas Company required that the instruments have a similar appearance, and that the Douglas Company is not confused as to where they got these instruments.

(Testimony of Virgil F. Simonick.)

The Court: You cannot prove a negative. They didn't offer any objection as to the Douglas Company. You can't prove a negative that way.

Mr. Pruitt: They did, your Honor.

The Court: Not as to this witness. This witness may not have been confused, but another witness may have been. [442] They said that sometimes when it should have been sent to one, it went to another, and there is no showing that it went through this man. He is an expert engineer. Perhaps he would have detected the difference. The question is with reference to the mind of the person who was buying. He is not in the purchasing department. He is an expert engineer. He probably would be objecting if we called him a salesman.

Mr. Pruitt: I am not calling him that.

The Court: That has nothing to do with it. You can also prove a negative, too, for that matter, but you can't prove it this way. When they show that the gentleman who received the order shipped it from one to the other, you cannot prove by an engineer the fact he would not have been confused by that, because then you are disproving nothing.

Mr. Pruitt: I will lay a further foundation, your Honor.

Q. By Mr. Pruitt: Mr. Simonick, what part, if any, do you play in the procurement of potentiometers for use in the program that you have described?

A. Together with the equipment group at Doug-

(Testimony of Virgil F. Simonick.)

las, we place the requisitions for the potentiometers with the purchasing department.

Q. And in those requisitions do you state what sources should be used for the procurement of the instruments? [443] A. Yes, we do.

Q. In connection with Douglas part No. 8002925 who were the authorized sources of which the purchasing department was advised?

A. We authorized the purchasing department to deal with Bourns, Edcliff, and Giannini.

Q. And did your department prepare specifications to be forwarded to the approved sources?

A. Yes, we did.

Q. To whom were the specifications forwarded?

A. The specifications were forwarded through our purchasing agent to the three vendors that I named.

Mr. Pruitt: I hand the clerk a folder and ask that it be marked as the defendants' next in order, for identification.

The Clerk: Defendants' Exhibit J, marked for identification.

Q. By Mr. Pruitt: I show you, Mr. Simonick, Defendants' Exhibit J, for identification, and ask you if you will review that and tell what that document is.

Mr. Lewis E. Lyon: I think the document speaks for itself as to what it is.

The Court: That is all right. The witness may describe it. I don't know what it is.

(Testimony of Virgil F. Simonick.)

The Witness: Douglas spec.-control drawing for that single potentiometer. [444]

Q. By Mr. Pruitt: For part 8002925?

A. '2925.

Q. And are these the specifications that were forwarded to the three approved sources that you previously mentioned? A. That is correct.

Mr. Pruitt: I will ask you to identify in this document the specification, if any, relating to the external configuration and appearance of the instrument.

The Court: Does that have a date, Mr. Simonick?

The Witness: Yes, sir. There is a date of the original release on here. 10—no, let's see. Here is one date here. These things are subject to engineering changes, and, consequently, they may not have the same date. Substantially, at October 15th.

The Court: 1951?

The Witness: 1953.

The Court: '53. All right.

Mr. Pruitt: Now, will you read the question, please?

(The question was read.)

The Witness: This document does give the external—

Mr. Lewis E. Lyon: I renew my objection to something that is in 1953. The specification certainly has no materiality to a suit filed here in 1951.

The Court: On the question of unfair competition we take it right up to the date of trial. [445]

Mr. Lewis E. Lyon: Suppose this witness says

(Testimony of Virgil F. Simonick.)

they make one exactly like Bourns. Does that—

The Court: Let's not argue.

Mr. Lewis E. Lyon: I don't want to argue it, but I don't want to keep—

The Court: That is all right. I don't know what he is trying to do. I think he is trying to prove they delineated it, and it was up to them to go and produce it.

As a matter of fact, if I told them that I wanted something, and they went ahead and made it, and you invented it, it is still an invention, unless it just described something that anyone, any electrician with a pair of pliers could have put together. But that does have a bearing on the question of unfair competition, whether they laid out the specifications.

Of course, the weakness of that situation is this: When they knew that there were competitors in the market, it wasn't up to them to decide who was prior. They said, "We like this kind of thing, and whoever gives it to us, we will take it." So what? What effect does that have on the trier of fact? None.

Mr. Lewis E. Lyon: That is my point.

The Court: Suppose a man invents a thing, and the man says, "I want something like it." Suppose he actually told Pitzer, "See if you can make something like this for me," and Pitzer went out and imitated the other man's invention. That [446] would not excuse it. That would not make unfair

(Testimony of Virgil F. Simonick.)

competition fair competition, because this gentleman knowing of it, hearing of it, and having in mind the other invention, asked for something similar.

The Witness: Your Honor, may I change my statement relative to the dates on here?

The Court: Yes.

The Witness: We have redrawn this, and some of our drawings are changed many times at the instance of the Ordnance Department, to conform with their changing practices. I notice it was originally drawn on June 1, 1951.

Mr. Lewis E. Lyon: Then, your Honor, we will object to the receipt of this as not the best evidence. Let's have the 1951 one, and not this one.

The Court: That's all right. Let's go on. If we quibble like this over small matters, we will never get through.

Mr. Lewis E. Lyon: No, we don't want to quibble, your Honor, but we want to know what this is.

The Court: I am not interested. I am going to disregard a lot of these small matters. I am sitting without a jury, and I know what is material and what is not material. So if I let in something that is not material, I will just junk it later on.

Mr. Pruitt: I will offer this as the defendants' next [447] in order.

The Court: It may be received.

The Clerk: J in evidence.

(Testimony of Virgil F. Simonick.)

(The document referred to, marked Defendants' Exhibit J, for identification, was received in evidence.)

[See Book of Exhibits.]

Q. By Mr. Pruitt: In connection with the preparation of those drawings, Mr. Simonick, what part did you play, if any?

A. I was responsible for obtaining an external configuration or envelope that would fit within the limited space we had available. Also, I was partially responsible for seeing that it had proper life characteristics, and that the mechanism looked as though it were trustworthy and of good design.

Q. And was some other official at Douglas responsible for the other portions of the specifications? A. Yes.

Q. Who was that?

A. To which specification are you referring? Generally, or this particular one?

Q. This particular model.

A. That particular model, yes, other people were responsible for it. In fact, there were several people responsible for the other portion.

Q. Can you identify those persons?

A. At the start of the program Mr. Everett Pier, now [448] deceased, was in charge, and under him and most directly concerned, he had several assistants to handle it, one of whom was Walter Shavell, now at the Giannini Company; Mr. Waters of the—Mr. Robert Waters of the Douglas Air-

(Testimony of Virgil F. Simonick.)

craft Company; and later Mr. Aldinger of the Douglas Company, and Mr. Rex Cruize.

Q. What determines the requirements of Douglas with respect to the size, shape, and dimensions of the instruments required by you?

A. The space in which—the limited space in which it has to fit.

Q. Now, were those particular characteristics that are shown in the drawing with respect to the two instruments you have identified based upon sketches that were submitted to you, or to anyone else at Douglas, to your knowledge, by Mr. Goepfinger of the Bourns Laboratories?

A. The envelope drawing, as shown in the specification, was the result of our working jointly with all three vendors, and laying out the missile space that was available to them. Actually, the people who determined the envelope size and shape more than anyone were the people who did not actually make production units for them, the Giannini Company.

The Court: These things are not bought in the open market, but they are, to some extent—— [449]

The Witness: Special.

The Court: Special, like custom made?

The Witness: That is right.

The Court: As they did in olden times. For instance, have you had a pair of custom made shoes?

The Witness: No.

The Court: No? I guess not in this country. In other words, it isn't like going to a hardware store

(Testimony of Virgil F. Simonick.)

and buying parts, but you are dealing with very sensitive, high-precision instruments, and you need certain things, and you go out in the market and find something that fits, and then you see if it can fit into your particular plane, and then you order; isn't that correct?

The Witness: That is correct. We usually find the people who are interested in this type of work have a rough idea of the size and shape of the thing, and we ask them if they can fit their particular design principles into our particular shape.

The Court: Particular shape. That is right. All right.

Q. By Mr. Pruitt: Did Mr. Rex Cruize participate in any way in the preparation of the 1951 specifications you have just identified?

A. Speaking from the standpoint of determining the envelope, the outer configuration, I can say no. This is not normally Mr. Cruize's responsibility. It strictly [450] has to do with the electrical requirements in it, mechanical requirements of putting the thing in its place.

Q. And when did Mr. Cruize assume that function, to the best of your knowledge?

Mr. Lewis E. Lyon: Your Honor, I object to that on the ground it assumes a fact not in evidence. He didn't say he did.

The Court: Yes, he said that he was in charge. Go ahead. You may answer.

The Witness: To the best of my knowledge, he

(Testimony of Virgil F. Simonick.)

got into this program in 1952, about August or September.

The Court: And he was a Douglas employee?

The Witness: Yes, sir.

Q. By Mr. Pruitt: In what year, if you know, did Douglas first purchase the model 118 from Mr. Bourns? I again show you Defendants' Exhibit D, which is before you.

A. This one? Are you asking me when did we first buy these?

Q. Yes.

A. Our requisitions for the purchase of these was early in '51.

Q. 1951? A. That's right.

Q. Do you know when you actually received production units of this model, which you have just seen?

A. No, sir, I don't, because another company was an [451] intermediary in the production process, and I don't know when they stopped.

Q. What other company was that?

A. Bendix.

Q. When did Bendix first become associated with Douglas in the program?

A. Well, as I recall, it was in the latter part of June, of 1951.

Q. Was Bendix producing some equipment for Douglas? Is that correct?

A. I don't believe—

Q. Subsequent to June, 1951 did Bendix pro-

(Testimony of Virgil F. Simonick.)

duce certain assemblies of equipment for Douglas Aircraft? A. That is quite right.

Q. And did those assemblies incorporate the models of instruments which are identified as Defendants' Exhibit D?

A. That is correct. [452]

Q. After the preparation of the specifications which you have identified, do you know whether or not the suppliers presented prototypes of the requested model to Douglas?

A. In order to get our approval to go into production, they must have submitted prototypes.

Q. Did you see any of the prototype models that were submitted?

A. I don't recall of having seen them. The prototypes normally don't go to me first, they go to the electrical department that passes on electrical characteristics before I am shown the thing.

Q. Did you ultimately approve a prototype that was forwarded to you by Mr. Bourns?

A. Approval of the prototype, except for external dimensions, is not within my province. That is in the hands of the equipment engineer, essentially electrical engineer.

Q. Do you know whether or not the Bourns prototype of that model was accepted by Douglas?

A. I assume that it was, because we bought some in production.

Q. Would your answer be the same with respect to the model produced by the defendant Edcliff? A. That is right.

(Testimony of Virgil F. Simonick.)

Q. Mr. Simonick, have you ever seen an instrument manufactured and sold to Douglas by Edcliff Instruments [453] which did not have the Edcliff name imprinted on the instrument?

A. I have not.

Q. Are you familiar with the procedure followed by Douglas Aircraft in returning instruments to suppliers for rework when necessary?

A. Yes, sir.

Q. Will you describe that procedure, please?

A. The fact that it is to be returned infers that it is being rejected for some particular reason, it must be rejected by an inspector; the inspector writes his tag in copy form, several copies. One of the copies goes to the purchasing department, who acts upon his rejection, and writes shipping papers to the shipping department, authorizing the shipping department to send them back to the vendor. At the same time the purchasing department authorizes the transfer of the parts from the inspection department to the shipping department. At the same time a copy is given to the stock people so that they know where the part is.

Q. The purchasing department gets the memorandum from the inspector who rejected the instrument; does the purchasing department get the instrument itself? A. Not that I know.

Q. As I understood it—

A. They shuffle paper; they don't look at physical parts, it is just so much paper to them. [454]

Q. Is it your testimony that the purchasing de-

(Testimony of Virgil F. Simonick.)

partment handles the paper work and then directs the receiving department to send the item to the shipping department for return?

A. That is correct.

Q. When you are considering purchasing a type of potentiometer for use in a program, do you have any contact with the suppliers of those items, or prospective suppliers of those items?

A. Yes, we do. Generally from our association with other people in the same business, that is, missile or aircraft people, we know of many people who are interested in supplying certain types of equipment, and we usually try to contact each of them.

Q. And from time to time have you contacted the Bourns Laboratories with respect to instruments produced by that company?

A. I personally have never contacted Bourns Lab. Our equipment section handles that part, because the final specifications come out under their jurisdiction.

Q. I see.

Mr. Pruitt: Your Honor, if we could have about a five-minute recess I think I could finish with this witness very shortly.

The Court: All right. [455] (Recess taken.)

The Court: All right.

Q. By Mr. Pruitt: Mr. Simonick, do you recall the date on which the envelope specifications for the Douglas No. 8002925 were first issued?

A. Yes, in June of 1951.

(Testimony of Virgil F. Simonick.)

Q. To your knowledge did Douglas ever purchase a ten and a quarter inch stroke potentiometer from the defendants in this case?

A. Yes, they did.

Q. I show you plate 19 of Plaintiff's Exhibit 3, and ask you if that is the potentiometer you referred to? A. Yes.

Q. At or about what date did you purchase—

How many potentiometers of the Model E-1 of defendant did you purchase?

A. There weren't very many. Maybe four or six.

Q. You don't remember?

A. Four or six, or something.

Q. At or about what date did you purchase those instruments?

A. It was probably in March of 1951.

Q. Did you have any discussions with any representative of Edcliff concerning those instruments prior to the purchase thereof by Douglas? [456]

A. Yes, we had several discussions with Edcliff prior to the purchase of those particular potentiometers.

Q. What individual at Edcliff did you have those discussions with?

A. Dillon; Mr. Dillon.

Q. What, if any, of the characteristics relating to size and shape was specified by Douglas in connection with that instrument?

A. All the external dimensions except for the diameter of the rod.

Q. Did Edcliff submit drawings of that instru-

(Testimony of Virgil F. Simonick.)

ment to you prior to the purchase of it by Douglas?

A. They submitted a sketch of the instrument prior to our purchase.

Q. Upon presentation of the sketch did you recommend the purchase of that instrument from Ed-cliff Instruments? A. Yes, sir.

Mr. Pruitt: No further questions, your Honor.

The Court: All right.

Mr. Lewis E. Lyon: No cross examination.

Mr. Pruitt: Thank you, Mr. Simonick. [457]

* * * * *

ROBERT R. WATERS

called as a witness by the defendants, being first sworn, was examined and testified as follows:

The Clerk: What is your name, please?

The Witness: Robert R. Waters.

Direct Examination

Q. By Mr. Pruitt: Where do you reside, Mr. Waters?

A. 9631 LaTijera Boulevard, in Los Angeles.

Q. By whom are you employed?

A. Douglas Aircraft Company.

Q. For how long have you been so employed?

A. Four years.

Q. What was your education, Mr. Waters?

A. Bachelor of Science and Master of Science in electrical engineering at Cal Tech as of 1950.

Q. Did you commence working for Douglas Aircraft immediately after your graduation or receipt of your degrees from Cal Tech?

(Testimony of Robert R. Waters.)

A. That is correct.

Q. In what capacity were you first employed by Douglas?

A. As a research lab analyst working on, primarily, testing of instruments. [458]

Q. What is your present employment at Douglas?

A. I am a designer doing preliminary design work.

Q. Has your work at Douglas involved specifications and approval of potentiometers acquired for use in connection with the missile program of Douglas Aircraft? A. Yes, sir, it did.

Q. And does it at the present date?

A. It does not.

Q. And for how long a period were you in the department dealing with the acquisition of potentiometers for use in the missile program?

A. I am still in the same section, but I had that responsibility for perhaps two years, after 1951.

Q. In what capacity, if any, do you participate in the procurement of linear motion potentiometers in connection with the missile program?

A. I wrote the requisition which is sent to the purchasing department for most of the potentiometers bought between, say, early '51 and late '52.

Q. And prior to recommending the purchase of potentiometers do you prepare electrical specifications for the potentiometers required by Douglas?

A. That is correct.

Q. When, if you recall, were the specifications

(Testimony of Robert R. Waters.)

made for the Douglas part number 8002925? [459]

A. Is that the single potentiometer?

Q. The single potentiometer, yes.

A. That was in late—middle to late 1951.

Q. I show you now Defendants' Exhibit J and ask you if these are the current specifications for that model potentiometer?

A. These, I believe, reflect all of the changes up—well, dated October '53. Any changes further than these, I believe, are still in the system. So these are the latest.

Q. That represents the specifications from June 1951 corrected through October 1953, is that correct?

A. That is correct. I notice there is "G" change. That is how many changes have been made on it. But in each case it was brought up to date.

Q. In connection with the specifications which you have just identified, did you participate in the preparation of any of the electrical specifications therein contained?

A. That is correct, that was my responsibility.

Q. What types of electrical requirements are set forth in those specifications?

Mr. Lewis E. Lyon: Objected to, your Honor, on the ground the specifications speak for themselves.

The Court: Overruled.

The Witness: In general, the accuracy and change of [460] electrical calibration and other electrical characteristics to properly describe how it will operate in its intended circuit. [461]

(Testimony of Robert R. Waters.)

Q. By Mr. Pruitt: Now, were the instruments covered by those specifications purchased for a specific use by Douglas Aircraft Company?

A. Correct.

Q. Did Mr. Cruize participate in the development of the original specifications of that model number?

A. No, sir, not the original.

Q. Prior to the preparation of those specifications, did you confer with prospective suppliers concerning those specifications? A. We did.

Q. What supplier or suppliers did you speak to in that connection?

A. Bourns Labs, Edcliff Instruments, and Gannini, Inc.

Q. Had you met representatives of Edcliff Instruments prior to the commencement of the discussions with them with respect to the particular instrument covered by those specifications?

A. Yes; yes.

Q. At or about what date did you first meet a representative of Edcliff Instruments?

A. It was in December, of 1950.

Q. At that time whom did you speak to representing Edcliff Instruments? [462]

A. It was either Mr. Pitzer or Mr. Dillon. I am not sure which. I believe it was Mr. Dillon.

Q. And what did Mr. Dillon say to you, in substance, and what did you say to him, in substance, at that meeting?

A. He presented himself as a prospective man-

(Testimony of Robert R. Waters.)

ufacturer of potentiometers, and he wanted to know of our requirements for potentiometers, and we told him the status at that time of what we wanted.

Q. Do you recall now what it was that you did want, and what you did tell Mr. Dillon you wanted?

A. We were in the process of evolving the requirements for the single, dual, and triple potentiometers we have here. We told him of the requirements as they existed at that time. In common with other prospective manufacturers, we kept bringing them up to date according to our thinking.

Q. As of that date had Douglas ever purchased from Bourns Laboratories an instrument similar to Defendant's Exhibit D, which I show you?

A. No, sir, not at the beginning of 1951.

Q. Had Douglas purchased from anyone an instrument similar to that instrument at or about that date, that is, in December, 1950?

A. By similar, you mean similar in appearance? No.

Q. Did you discuss with the three suppliers that you [463] mentioned the various requirements of those specifications? A. We did.

Q. And it was over the period from January, 1951, until June, 1951, when they were first issued; is that correct?

A. That is about right, yes, sir.

Q. Did you request or receive prototypes of the single instrument covered by those specifications from any of the suppliers with whom you had had the discussions?

(Testimony of Robert R. Waters.)

A. As a single instrument, I am not certain. We received prototypes of instruments, which were either for single or multiple purposes, from both Edcliff and Bourns Labs.

Q. And at or about what date did you receive those prototypes?

A. That was early in '51.

Q. In the materiel ordered, that you send to the purchasing department, do you specify what sources may be used for the procurement of that materiel?

Mr. Lewis E. Lyon: That is objected to on the ground that those matters are in writing, and the writings should be produced.

The Court: No. Overruled.

The Witness: Quite frequently we do specify specific suppliers when, in engineering judgment, we feel that that is proper. Many times we allow the purchasing department to buy on strictly a price and delivery basis. [464]

Q. By Mr. Pruitt: In connection with the proposed purchase of the Douglas part No. 8002925, being the single instrument, did Douglas specify the approved sources for those instruments?

A. We did.

Q. And who were the approved sources?

A. We authorized them, or recommended that the purchasing department contact Giannini, Edcliff, and Bourns Labs.

Q. Is it the policy of the Douglas Aircraft Company, so far as you know, to have more than one

(Testimony of Robert R. Waters.)
source for material used by it in connection with
the guided missile program?

Mr. Lewis E. Lyon: That is objected to on the ground there is no foundation laid to show this witness has any knowledge, or any voice in any such policy program.

The Court: Overruled.

The Witness: Would you repeat the question, please?

The Court: He doesn't understand the question. Read it, please?

(The question was read.)

The Witness: When possible, without undue cost, it is always considered desirable.

The Court: It is good business to always have more than one source of supply, isn't it?

The Witness: Quite right. [465]

Q. By Mr. Pruitt: Do you know if the Douglas part No. 8002925 which was purchased from the Bourns Laboratories was purchased for incorporation into devices manufactured by Douglas for the United States Government?

A. That is correct.

Mr. Lewis E. Lyon: That is objected to, your Honor, on the ground there is no foundation laid.

The Court: Overruled.

The Witness: That is correct.

Q. By Mr. Pruitt: Would your answer be the same as to those devices purchased from the defendant, Edcliff Instruments? A. Yes, sir.

Q. And were the potentiometers so acquired

(Testimony of Robert R. Waters.)
from Edcliff Instruments incorporated in devices
which were being made for the United States Gov-
ernment? A. They were.

Mr. Lewis E. Lyon: That is objected to on the
ground there is no foundation laid, your Honor.

The Court: Overruled.

The Witness: They were.

Q. By Mr. Pruitt: And were certain of the
potentiometers acquired used in connection with
development work under the Government contract
that you mentioned?

Mr. Lewis E. Lyon: The same objection, your
Honor. [466]

The Court: Overruled.

The Witness: They were.

Q. By Mr. Pruitt: Now, from 1950, and there-
after, were you participating in the development at
Douglas of any test techniques with respect to po-
tentioimeters acquired for use in the missile pro-
gram? A. I was.

Q. And did one of those test techniques involve
an electrical circuit to test noise?

A. It did.

Q. Did you make that circuit available to sup-
pliers of potentiometers?

A. Yes, sir, we did. We required that they test
to that circuit, because we had decided that that is
the way we wanted them checked.

Q. Can you state at or about what date that test
circuit was given to the suppliers?

A. I believe our conversations with them first

(Testimony of Robert R. Waters.)

brought it out very early in '51. Whether we actually then transmitted a circuit, I believe it was later on, when the test spec. was written.

Q. Can you describe the circuit that was given to the suppliers for that purpose?

A. Yes. It involved a few simple electrical elements, a battery, and an oscilloscope or other device designed to [467] show on record the effect of electrical noise in the potentiometer.

Q. In the year 1951, and thereafter, did Douglas require its suppliers of potentiometers to test the potentiometers for linearity, and to submit a report of linearity with the instruments sold to Douglas?

A. That is correct.

Q. And did the specifications concerning testing, include a test for linearity?

A. They did.

Q. And what type of test was recommended for that purpose?

A. It was a test involving a circuit similar to a Wheatstone bridge, which plotted the electrical output of the instrument versus mechanical motion of whatever the drive mechanism was.

Q. Is the Wheatstone bridge something that is known to you as an electrical engineer?

A. Yes.

Q. Where did you run across the Wheatstone bridge in connection with your education?

A. I believe the first time was in a senior high school physics course.

(Testimony of Robert R. Waters.)

Q. In what manner is the record of a linearity test made? [468]

A. Generally, for recording electrical output, in a chart along with the corresponding mechanical position.

Q. And are instruments used for that purpose that make the chart automatically?

A. There are some instruments devised to do it automatically. Generally, it requires an operator to actually perform the motion and read a dial, or set a dial, or something similar.

Q. Can a brush analyzer be used for the making of that type of a test?

A. Yes, that is one of the devices that can be used.

Q. Is that an instrument that is commercially available? A. Yes, it is.

Q. In connection with the potentiometers purchased by Douglas, did you prepare any specifications for submission to suppliers covering the test procedures recommended by Douglas?

A. We did. [469]

Mr. Pruitt: I will ask that this booklet be marked as Defendants' exhibit next in order for identification.

The Clerk: Defendants' Exhibit K.

(The exhibit referred to was marked Defendants' Exhibit K, for identification.)

Q. By Mr. Pruitt: Mr. Waters, I show you Defendants' Exhibit K for identification and ask you what that document is?

(Testimony of Robert R. Waters.)

A. It is a test procedure for all of these models of potentiometers, single, dual, and triple, involving both electrical and mechanical tests.

Q. And at or about what date were those specifications distributed to suppliers of those instruments?

A. That was soon after this October 18th date, 1951, which is the date it was finally printed by Douglas.

Q. And was a copy of those specifications sent to Edcliff Instruments?

A. Yes, sir, I am certain it was.

Q. And was a copy sent to Bourns Laboratories?

A. Yes, sir.

Mr. Pruitt: I will offer that as defendants' next in order, your Honor.

The Court: It may be received.

The Clerk: K in evidence. [470]

(The exhibit referred to was marked Defendants' Exhibit K, and was received in evidence.)

[See Book of Exhibits.]

Q. By Mr. Pruitt: In 1950, Mr. Waters, were you familiar with materials used in potentiometers for the resistance wire?

A. Yes, sir, in middle and late 1950.

Q. What type of wire was commonly used for that purpose during that time?

A. There were many different manufacturers of wire; Jelliff, Evanohm, Sigmund Cohn, Ney, Driver-Harris, many others.

Q. Did Douglas incorporate in its specifications

(Testimony of Robert R. Waters.)

any reference to the type of wire which should be used in resistance elements in the potentiometers acquired by it?

Mr. Lewis E. Lyon: Objected to, your Honor, on the ground the specifications speak for themselves. They are before the court.

The Court: Overruled.

The Witness: As soon as we knew of the superiority of precious metals, we required that the potentiometer windings and brushes be made of precious metals, such as platinum, palladium, and so forth.

Mr. Pruitt: Mr. Lyon, in the notice to produce at page 20 I asked for an original of a letter dated 1-11-51 from Douglas Aircraft to the Bourns Laboratories, and the [471] following item appearing on page 20 of the notice to produce. I will ask that those two documents be produced at this time.

Mr. Lewis E. Lyon: What were they?

Mr. Pruitt: On page 20 of the notice to produce, item 1 is the letter from Douglas Aircraft dated 1-11-51 to Bourns Laboratories; item 2 is an enclosure in that letter addressed from the Air Force Cambridge Research Laboratories, Cambridge, Massachusetts, to Douglas Aircraft Company, bearing the date 12-15-50.

Mr. Lewis E. Lyon: I will see if they have been able to be located.

The Court: You say you haven't been able to locate it?

(Testimony of Robert R. Waters.)

Mr. Lewis E. Lyon: We have it here, your Honor.

Mr. Pruitt: The letter from Douglas is signed by Schuyler Kleinhaus for E. Burton. The other letter is signed by R. J. Sullivan.

Mr. Lewis E. Lyon: Yes, I have the letter, January 11, 1951 with its attached enclosure.

Mr. Pruitt: Will you produce it, Mr. Lyon? May I use them?

(Document handed to counsel.)

Mr. Pruitt: I ask that these documents be marked as Defendants' Exhibit for identification.

The Clerk: Defendants' Exhibit L marked for identification. [472]

(The exhibit referred to was marked Defendants' Exhibit L, for identification.)

Q. By Mr. Pruitt: Mr. Waters, I show you correspondence which I have identified and ask you if you have seen the letter dated 15 December 1950? A. Yes, sir, I have.

Q. And where did you see that letter?

A. This letter was shown to me by my supervisor at this time the 15th of December. I believe it had been received just a few days when I first saw it.

Q. And by reference to that letter does that refresh your recollection as to the date on or about which Douglas considered the use of platinum alloy wire as a better element wire for the potentiometers acquired by it?

Mr. Lewis E. Lyon: We object to that, your

(Testimony of Robert R. Waters.)

Honor. If this is an endeavor to impeach his own witness's testimony—

The Court: Oh, no. Overruled.

The Witness: I was very recently put into this particular position at this time, and whether my supervisor had previously known of these wires, or not, I cannot testify; but at this time we were then definitely familiar with them.

Mr. Pruitt: I will offer this in evidence as the defendants' next in order.

The Court: It may be received.

The Clerk: L in evidence. [473]

(The exhibit referred to was marked Defendants' Exhibit L, and was received in evidence.)

[See Book of Exhibits.]

Q. By Mr. Pruitt: In December 1950, Mr. Waters, were you familiar with the types of contact material used in potentiometers at that time?

A. Through this letter and other references like it, yes.

Q. What contact material was commonly used in potentiometers at or about that date?

A. Contact material, one of them that I particularly remember is the Paliney No. 7.

Q. Was that particular product advertised for use for that purpose?

Mr. Lewis E. Lyon: That is objected to, your Honor, as not calling for the best evidence.

The Court: Overruled.

The Witness: I believe it was.

Mr. Pruitt: I would like to have marked what

(Testimony of Robert R. Waters.)
purports to be a catalog of J. M. Ney Company,
and ask that it be marked defendants' next in order
for identification.

The Clerk: Defendants' Exhibit M marked for
identification.

(The exhibit referred to was marked Defendants'
Exhibit M, for identification.)

Mr. Pruitt: I also hand the clerk what purports
to be [474] catalog of Sigmund Cohn Corporation
and ask that it be marked as the defendants' next
in order for identification.

The Clerk: Defendants' Exhibit N marked for
identification.

(The exhibit referred to was marked Defendants'
Exhibit N, for identification.)

Q. By Mr. Pruitt: Mr. Waters, I show you
Defendants' Exhibit M for identification and ask
you if on or about December 1950 you saw a catalog
similar to that?

Mr. Lewis E. Lyon: We will object to that, your
Honor, as leading, grossly so, and also on the prop-
osition that what is similar to that doesn't mean a
thing, as far as this record is concerned.

The Court: A catalog, as we know, is published
in many copies, so the witness may never have seen
the identical thing, but he may have seen another
copy, just as a copy of a newspaper.

Q. By Mr. Pruitt: Will you examine it, Mr.
Waters, and see if you have seen one similar to it?

Mr. Lewis E. Lyon: Same objection. I object to

(Testimony of Robert R. Waters.)

the use of the word "similar." If it is an identical copy, that is another thing.

The Court: You tell us.

The Witness: I did around that period see catalogs which had substantially the same material in them. [475]

Q. By Mr. Pruitt: Calling your attention to—

Mr. Lewis E. Lyon: That is just exactly the answer, your Honor, that I expected. And what does some of the same material mean?

The Court: All right. You can bring that out on cross examination. There is already testimony on your side that those three, Ney and Cohn, and the other one, were standard companies which dealt in certain supplies and provided methods of testing, so on and so forth. All right. Go ahead.

Q. By Mr. Pruitt: Calling your attention to page 5 of Defendants' Exhibit M, for identification, and a section entitled "Poliney No. 7," did the catalogs you saw on or about December 1950 have material in connection with Poliney No. 7 in the catalog?

Mr. Lewis E. Lyon: We object to that, your Honor, as calling for secondary evidence.

The Court: Overruled.

Mr. Lewis E. Lyon: Not the best evidence.

The Court: Overruled.

The Witness: I believe they did.

Mr. Pruitt: I will offer this in evidence as Defendants' Exhibit M.

(Testimony of Robert R. Waters.)

The Court: It may be received.

Mr. Lewis E. Lyon: Objected to on the ground there is no proper foundation laid, your Honor.

The Court: Overruled.

The Clerk: M in evidence.

(The exhibit referred to was marked Defendants' Exhibit M, and was received in evidence.)

Q. By Mr. Pruitt: Calling your attention to Defendants' Exhibit N, I ask you to state whether or not in 1950 you saw a catalog of the Sigmund Cohn Corporation, which is similar to that exhibit?

Mr. Lewis E. Lyon: Same objection, your Honor.

The Court: Overruled.

The Witness: Yes, I believe the information was similar to this one.

Q. By Mr. Pruitt: Did the catalog that you saw on or about that date have material concerning platinum and platinum alloy resistance wires contained in said catalog?

Mr. Lewis E. Lyon: Same objection, your Honor, on the ground the catalogs themselves are the best evidence.

The Court: Overruled.

The Witness: It did.

Mr. Pruitt: I offer this Sigmund Cohn catalog as Defendants' exhibit next in order.

The Court: It may be received.

The Clerk: Exhibit N in evidence.

(The exhibit referred to was marked Defendants' Exhibit N, and was received in evidence.)

(Testimony of Robert R. Waters.)

Q. By Mr. Pruitt: In December 1950 and thereafter, Mr. Waters, did you have any conversations with suppliers of potentiometers relating to the sources of supply of various component materials used in potentiometers? A. We did.

Q. And did you discuss such matters with representatives of Edcliff Instruments?

A. Yes, sir, we did.

Q. Did Mr. Bourns, or any representative of Mr. Bourns, ever tell you not to reveal the names of the suppliers of the materials which he used in his potentiometers?

Mr. Lewis E. Lyon: That is objected to, your Honor, as assuming a fact on which there is no evidence.

The Court: The objection is sustained. I don't see where the fact that he didn't warn him will excuse an employee from disclosing it. This man wasn't employed by him. He was a contractor dealing with him at arm's length and owed a different kind of duty than others.

Mr. Pruitt: I understand that. I think it is material to the fact of whether or not he considered it to be a trade secret at that time. He is claiming now that the use of these materials were trade secrets. And I think it is material—

The Court: That relates as between him and his employees. It may not be as to them. [478]

Q. By Mr. Pruitt: At or about December 1950 and thereafter, Mr. Waters, did the sales repre-

(Testimony of Robert R. Waters.)

sentatives of various suppliers call on you from time to time? A. They did.

Q. And did the sales representatives represent companies which supplied component materials for potentiometer manufacture? A. Yes.

Q. At any time did you direct the sales representatives of these suppliers to your suppliers for potentiometers?

A. Yes, sir, we made a practice of making certain that our instrument suppliers knew of any sources that we might know of for quality materials.

Q. Did you ever direct any of the sales representatives to the defendant Edeliff Instruments?

A. I am certain that we did.

Q. Specifically did you recommend to Mr. Adolph Cohn to visit Edeliff Instruments?

Mr. Lewis E. Lyon: That is objected to as leading, your Honor.

The Court: Overruled.

The Witness: There was a Mr. Cohn, which one I don't remember, I think there are two or three, that came to visit us and we told him of Edeliff Instruments, among many other instrument companies that we were buying parts from, [479] that we would recommend that he contact.

Q. Do you know what company Mr. Cohn represented? A. The Sigmund Cohn Company.

Q. Mr. Waters, in your experience as an electrical engineer, do you know of any other fields of activities in which potentiometers of the same ac-

(Testimony of Robert R. Waters.)
curacy as you use in your missile program are required? A. Yes, sir.

Q. Will you state them, please?

A. Computing devices, used in radar, gunfire directors, auto-pilots, various types of automatic control systems, and other related fields.

Mr. Pruitt: I have no further questions, your Honor. [480]

Cross Examination

Q. By Mr. Lewis E. Lyon: You say that some representative of Edcliff Instruments called upon you on or about December 15, 1950, and you are not certain whether it was Mr. Dillon or Mr. Edcliff. Is that correct?

A. You mean Mr. Dillon or Mr. Pitzer?

Q. Or Mr. Pitzer.

A. The gentlemen very often visited us together.

Q. Just answer the question, please.

A. The answer is, I do not remember which person.

Q. Do you remember that it was not both of them together?

A. I do not remember that.

Q. Do you remember what potentiometers they had with them at the time they called upon you in December of 1950?

A. I believe that they had samples of their—sample designs, or mechanisms, of their mechanical set-up.

Q. Of their what?

(Testimony of Robert R. Waters.)

A. Their mechanical design of the potentiometers.

Q. Which potentiometers were those?

A. These were potentiometers which are not in evidence anywhere here, because they were merely designs.

Q. I see. Now, will you take this Exhibit 3, and look through it, and tell me which one of these mechanical designs [481] they exhibited to you at that time most nearly approached, or was exactly similar?

A. There are two or three which are sufficiently similar so that I don't believe I can differentiate between them.

Q. All right. Tell me which ones they are by plate numbers of Exhibit 3. You see the plate numbers?

A. Yes, sir. Plates 9, 16, 17, and 20, I believe.

Q. All right. Did they have four such devices with them? A. They did not.

Q. How many did they have?

A. They had—I wouldn't say that they had devices with them. They either had the devices or designs for the devices, and I believe they had one, or perhaps two.

Q. One or perhaps two designs of the devices?

A. Correct.

Q. Which was it?

A. As I said, I could not tell you whether they were specific mechanical devices, or whether they

(Testimony of Robert R. Waters.)

were merely a demonstration of the design of the device.

Q. Didn't they have some actual prototypes with them, in their possession at that time, and demonstrate them to you?

A. If there was a prototype, it was strictly of the sliding mechanism. The reason I picked those models is because [482] I, in particular, remember the square shaft idea, and that was the thing that was similar in those four plates.

Q. Now, do you know, and does your examination of the records of Douglas Aircraft show you when models or prototypes were submitted by Bourns Laboratories to Douglas?

A. I am certain that the records do show that.

Q. Well, have you made an examination of it?

A. No, sir, I have not.

Q. Do you know when Bourns submitted Model 114 to Douglas Aircraft?

A. Which model was that, sir? Which design?

Q. Well, let's look at Exhibit 3 again, and see if you can identify that by Plate No. 10.

A. That is a potentiometer very much like that, that we bought one prototype of, I believe it was very early in 1951.

Q. Do you know when the design was submitted to Douglas?

A. This at that time was what you might call a shelf item. The part existed. It was the closest to the thing we were looking for, so we bought one for type testing.

(Testimony of Robert R. Waters.)

Q. I am asking you when the design was first submitted to you.

A. In very early 1951.

Q. It had not been submitted to you before that?

A. To my knowledge, no. [483]

Q. Are you familiar with this letter which I place in your hands? Did you find that one in the file?

A. At the time when the letter is dated, I was not responsible for this particular job.

Q. Well, I didn't ask you that.

A. Consequently, I did not receive that letter.

Q. You did not find that letter in the file?

A. That is correct.

Mr. Lewis E. Lyon: I will ask that the letter just handed the witness be marked for identification as Exhibit 41, for identification.

The Clerk: Plaintiff's Exhibit 41, marked for identification.

(The document referred to was marked Plaintiff's Exhibit 41, for identification.)

Q. By Mr. Lewis E. Lyon: When did you first become active in this field, if you were not active in the field on September 25, of 1950?

A. I assumed responsibility in this field on, roughly, December 10th or 11th, of 1950, although I had had some testing assistance to my predecessor before that.

The Court: You took over your duties in that respect on that day in December?

The Witness: Yes.

(Testimony of Robert R. Waters.)

Q. By Mr. Lewis E. Lyon: This letter was written to Mr. [484] Walter Shavell? By "this letter," I mean Exhibit 41, for identification. Who was Mr. Shavell?

A. Mr. Shavell was my supervisor when I went to Douglas in June of 1950.

Q. Was he still connected with this department in December of 1950?

A. He was connected up until, I believe, the 31st of December, 1950.

Q. And is he still with Douglas?

A. No, sir, he is working for Giannini, Inc.

Q. Do you recall having a conversation with Mr. Bourns about this December visit from Mr. Edcliff some time ago? A. From Mr. whom?

Q. What is that? Mr. Bourns.

A. A visit from Mr. Edcliff.

Q. No, about your visit from Mr. Dillon and Mr. Pitzer in December of 1950?

A. I cannot say whether I actually spoke to Mr. Bourns about the matter. I was aware that the gentlemen had been associated.

Q. I am asking you, did Mr. Bourns call you with respect to Mr. Dillon's and Mr. Pitzer's visit to you at Douglas in December of 1950?

A. Are you referring to a call recently?

Q. Yes. [485] A. He did.

Q. When was it recently that this conversation was had? A. Within the last week.

Q. Within the last week. Did you fix the date

(Testimony of Robert R. Waters.)
of that visit at that time in that conversation with
Mr. Bourns as on or about December 15, 1950?

A. No, sir, I don't believe I fixed a date. If I did, I was estimating it.

Q. Now, this date of December 15, 1950—I believe you mentioned that—how did you fix that date?

A. I believe I said the 10th of December, or thereabouts, and that was the time at which I was returned to Santa Monica from New Mexico.

Q. I see. Now, this visit with Mr. Dillon or Mr. Pitzer, or both, at the Douglas plant was on or about the 10th of December, 1950?

A. It was following that date.

Q. Well, how long following it?

A. Precisely, I cannot remember. I believe it was within, let us say, one to two weeks.

Q. One to two weeks. And this same visit is the one we are talking about, when they had models, prototypes with them, and designs; is that correct?

A. Yes, sir.

Q. There was only one such visit in December, 1950, [486] was there?

A. That I cannot say.

Q. Only one that you recall?

A. Beginning with that date, there were many visits from the Edcliff Company, as well as many other companies, and it is impossible for me to remember which ones were before or after the 31st of December. It was almost constantly from there on out.

(Testimony of Robert R. Waters.)

Q. You had this telephone call from Mr. Bourns concerning this visit about a week ago. Will you tell me whether you told Mr. Bourns that whoever it was, Pitzer or Dillon, stated to you at the time of this first meeting in December of 1950, that he didn't want to show the instruments to Mr. Shavell, your supervisor at that time, because Mr. Shavell was leaving and might take the information to Giannini's?

A. I told Mr. Bourns that it was known to me, or made known to me, either by the people who visited, or by my supervisors, the person who supervised both Mr. Shavell and myself, that the gentleman asked specifically to see me, and the reason given to me was that they were aware that Mr. Shavell was changing employment, and, as such, it was not desirable to speak to Mr. Shavell; also, from the point of view that I would be the one having the responsibility, and, therefore, I would be the one to talk to.

Q. How long had you been out of school in December of [487] 1950?

A. Oh, roughly six months.

Q. In your work at Cal Tech had you had any opportunity to purchase materials for the construction of potentiometers? A. No, sir.

Q. Had you ever been called upon to locate the sources of material for the production of potentiometers? A. I had not.

Q. Had you had any reason for purchasing potentiometers, or for locating the sources of ma-

(Testimony of Robert R. Waters.)

terials for potentiometers until after this call upon you in December of 1950?

A. The only occasion for purchasing potentiometers was for my own use.

Q. Well, just answer the question, please.

A. Yes, sir.

Q. Your own uses where?

A. In my own work, for my own amusement. These potentiometers were not of the same nature which we are discussing.

Q. Of what nature were the potentiometers?

A. Strictly of what you might call the volume control type, which are used in conventional radio circuits.

Q. That is, in those conventional radio circuits, there is no particular accuracy required for any such potentiometer, is there? [488]

A. In general, that is correct.

Q. That is, if they are within 10 or 15 per cent of volume—I mean, of accuracy, that is O. K., isn't it?

A. I think that is probably it by the biggest percentage.

Q. And that is the only experience that you had had in the purchase of potentiometers or materials for potentiometers up until December 10th of 1950, isn't it? A. That is correct.

Q. So that prior to December 10th of 1950 you had no reason for determining who manufactured wires, or contact elements, or other fine requirements for an accurate potentiometer, had you?

(Testimony of Robert R. Waters.)

A. Before, roughly, June of 1950, when I was first put into this work, and that was in a secondary capacity.

The Court: The witness stated, I think,—it is fair to the witness to say that he stated that prior to that time he had assisted Shavell, and that as his assistant he had learned about it, and in December he took over, and, of course, acquired the full knowledge necessary for one in authority. Isn't that what you said?

The Witness: That is correct, yes, sir.

Q. By Mr. Lewis E. Lyon: Now, prior to December 10, 1950, the potentiometers that you testified to were of whose manufacture? [489]

A. Many companies. Bourns Laboratories; Genesco, Inc.; Giannini, Inc.; Schwinn-Gyro Corporation; and a few others, perhaps, that I cannot think of.

Q. Were Bourns Laboratories' potentiometers purchased by Douglas Aircraft prior to December 10, 1950, for use in the guided missile field?

A. Yes, sir.

Q. Was there any other linear motion potentiometer purchased by Douglas Aircraft Company prior to December 10, 1950, for use in a guided missile program?

A. As a part of another instrument, yes, sir.

Q. A linear motion potentiometer?

A. That is correct.

Q. From whom? A. From Genesco, Inc.

Q. And what other instrument was that?

(Testimony of Robert R. Waters.)

A. That was an accelerometer, an acceleration measuring device.

Q. It was some device used in accelerometers that were purchased by Douglas before that time?

A. That is right, sir.

Q. So far as separate potentiometers, linear motion potentiometers, Douglas had not purchased prior to December 10, 1950, linear motion potentiometers per se from anyone other than Bourns; is that correct? [490]

A. To my knowledge, that is correct.

Q. What were these accelerometers that you say were purchased between June of 1950 and December 10 of 1950 by Douglas used for, which included a linear motion potentiometer, by Douglas?

A. Did I understand the question, what were they used for?

Q. Yes.

A. For measuring acceleration in flight vehicles.

Q. In what type of flight vehicles?

A. In guided missiles. They were also used in aircraft.

Q. In what position?

A. I am sorry. I don't understand what you mean.

Q. Well, in what particular tests were they used in the guided missile for?

A. They were used for measuring the acceleration of the vehicle.

Q. What size were they?

A. That, I am sorry, I cannot remember. I mean

(Testimony of Robert R. Waters.)

I cannot state, because this is a classification. Do you mean physical size?

Q. Yes.

A. Or the electrical distances?

Q. Physical size. [491]

A. Physical size, they were perhaps 3 by 3 by 2, on that order.

Q. How do they compare in size requirements with this potentiometer, say, Exhibit 6, for identification?

A. The potentiometer portion was smaller.

Q. Smaller?

A. The over-all instrument was considerably larger.

Q. Does Douglas Aircraft still purchase linear motion potentiometers or instruments containing linear motion potentiometers from that company?

A. Yes, sir, they do. [492]

* * * * *

Redirect Examination

Q. By Mr. Pruitt: Mr. Waters, in 1950 while you were employed at Douglas Aircraft did you ever see a pamphlet a copy of which I now hand you?

A. During what period, sir?

Q. During the period 1950 while you were employed by [495] Douglas.

Mr. Lewis E. Lyon: What is the thing now offered to the witness? It is not redirect examination.

The Court: These gentlemen are not parties to the action; let's finish with them and send them home.

(Testimony of Robert R. Waters.)

Mr. Lewis E. Lyon: I want to find out what it is that is shown to him.

The Court: I don't know what it is that he is showing him. What is it? He hadn't answered. Let him answer whether he has seen it. Maybe he hasn't seen it.

The Witness: Yes, sir, I have seen that.

Q. By Mr. Pruitt: Did you read it during that period? A. Yes, sir, I did.

Q. And is this pamphlet, or a copy thereof, available to the persons in your department at Douglas Aircraft? A. Yes, sir, it is.

Mr. Pruitt: I will offer that document in evidence as defendants' next in order, your Honor.

The Court: We will certainly know enough about potentiometers before we get through, if we absorb all this evidence.

It may be received.

The Clerk: Defendants' O in evidence.

(The exhibit referred to was marked Defendants' Exhibit O, and was received in evidence.) [496]

* * * * *

Mr. Pruitt: Your Honor, I was informed by Mr. Lyon this morning that they will dismiss, or through some other method remove the '980 patent issues from this matter.

The Court: There is only one cause of action, so it isn't a case of dismissing; it is merely saying that they are not urging it, that is all.

Mr. Pruitt: Yes. There are several agreements

that we have arrived at with respect to the conditions under which that will be done, and I am wondering if the court cares to listen to my suggestion with respect to the manner in which mechanically the court can carry out our agreement.

The Court: It is all right with me. I am always glad to hear counsel's suggestions to simplify procedures.

Mr. Pruitt: In addition to the plaintiff's first cause of action for patent infringement of both patents, there is a Count Four of the counter-claims asking for declaratory relief with respect to the '980 patent, and with respect to the '981 patent. As I understand it from Mr. Lyon, they will not claim that the present C-3 instrument manufactured by the defendant infringes the '980 patent. I understand that it is their position that the C-1 and C-2 instruments do infringe; but the defendants are no longer manufacturing [500] either of those devices, do not intend to resume manufacturing either of those two devices, and we will agree that we will not manufacture either of those two devices.

The Court: Gentlemen, there is one thing I want to tell you. Regardless of any agreement, I am not going to undertake to adjudicate the same problem under your counterclaim. So if they dismiss as to that, you will have to dismiss the declaratory judgment, because it doesn't help.

Mr. Lewis E. Lyon: That is the agreement, your Honor, that we dismiss on their agreement not to make the C-1 and C-2.

The Court: They make no claim, then, and you will not press your counterclaim. Because under declaratory judgment I can give exactly the same thing as before, except as to the form of relief.

Mr. Lewis E. Lyon: Well, all counterclaims based on the '980 patent, it is our understanding will be not urged, the same as we agree not to urge our charge of infringement, and the counterclaims are not only declaratory relief, but also a claim of false marking, which also will go out on the same proposition.

The Court: That is all right. That is agreeable, then.

Mr. Pruitt: I just wanted it clear on the record that our present C-3 instrument is not claimed to infringe, and I thought possibly a provision in the judgment would be [501] satisfactory.

The Court: That is all right. Anything you agree as to a particular device is all right with me. [502]

Mr. Pruitt: I also, of course, want to reserve the right to make my position clear, that I still insist the '980 file wrapper is relevant to the question of validity and the proper interpretation of the single claim of the '981 patent.

The Court: That is a question of argument. As a matter of fact, in one of my earliest patent cases I became convinced that the file wrapper has a good deal of bearing. That was in the Joyce patent. That is a shoe patent, where a single claim had been awarded, and where Mr. Joyce, in my opinion, was trying to recapture what he had lost by claiming all platform shoes, which were old in the art, three or

four hundred years anyway. The Chinese had used platform shoes for centuries, and he had claimed all platform shoes.

So ordinarily I have no objection to having the file wrapper in if counsel thinks that it bears upon the subject. Ultimately, if it does not, I just don't need to read it. That is all there is to it.

Mr. Lewis E. Lyon: We have not objected, your Honor, to the file wrapper of the first patent.

The Court: So if you want to, you may offer it for whatever it is worth. I don't like to encumber the record, or make a record that is larger than necessary.

Mr. Lewis E. Lyon: Now, it is also my understanding, and I don't know whether the record now states it, that [503] counter-claims 1 and 2 are also to be dismissed.

Mr. Pruitt: Yes, I will state now for the record that the counter-claimants will offer to dismiss at this time all of the counter-claims set forth in the amended counter-claims with the exception of the declaratory relief action, in so far as it relates to the '981 patent. I think that is important.

The Court: What declaratory relief can you ask? They are alleging that it is valid and infringed, and you allege it is invalid, or if it is valid you want to narrow it so you will not infringe. What more could you obtain by declaratory relief?

You want to bear in mind that I was one of the first District Judges in the country to apply declaratory relief to a mere declaration of liability or

non-liability, you see, but I cannot see what more you could obtain through the declaration than any judgment adjudicating the merits. We are no longer working under that old case where if you find there was no infringement, you do not have to decide whether the patent is valid. The Supreme Court has either repudiated that statement, or, as they usually say, have said, "We misunderstood." At any rate, that is the rule now. So what more could I declare by a declaration that I could not declare by a judgment on the merits?

Mr. Pruitt: Your Honor, it will appear from the evidence that certain of the instruments which are claimed to infringe [504] were sold only to the United States Government or to its contractors.

The Court: I have already ruled that only affects the question of damages. It does not affect the power of the court. I determined that, and I remember all of the argument.

You urged that as a ground for dismissing the action, and I said that may merely affect the right to determine damages. It does not determine the right of the court.

Mr. Pruitt: I didn't argue it extensively at that time.

The Court: Extensive argument does not help in this court. If that did not impress me then, it does not impress me now. You certainly have had extensive argument with 194 pages in a brief.

Mr. Pruitt: I want to call your attention to certain authorities on that, and I want to be heard for a moment on that question.

The Court: I will not hear you now. We will argue it later.

Mr. Pruitt: I just wanted to state why I didn't dismiss the declaratory relief action.

Mr. Lewis E. Lyon: As I understand, you are dismissing the counter-claims, with the exception of the declaratory relief action with respect to the '981 patent?

Mr. Pruitt: That is right. [505]

The Court: You are a young man, and are looking at it from a peculiar stand point. Your attitude is the most fantastic there is. It shows youth. In other words, here is your chance to have a court determine an issue, and you try to resort to a statute and make it mean what I say it does not mean, because the Congress has not deprived us of jurisdiction in patent litigation by that provision. It merely said that when there is infringement and somebody claims damages, the man should go to the Court of Claims.

Mr. Pruitt: And sue the Government, your Honor, and not the claimed infringer.

The Court: All right. But that does not deprive me of the right to say that this patent is good and you are infringing it, even if I deny you damages. You cannot show me any law which says that by that section I am ousted from jurisdiction, because there is no such law.

Mr. Pruitt: Your Honor, I thought there was some doubt about it, and that is the reason——

The Court: There is no doubt in my mind. I have ruled on it before. That is not new. I have in-

terpreted that before. That section has been there for years. I am not wasting judicial time after I take jurisdiction of a case, and have spent six days and probably will spend ten days, by throwing it out on a technicality. It is going to be decided on the merits, and even if I cannot decide damages, I am going to decide whether this patent is good, and whether you are infringing it. [506]

Mr. Pruitt: I hope you do, your Honor. I agree wholeheartedly.

The Court: All right. That is all there is. There used to be a time when patent lawyers—your firm is not a patent firm—were interested more in a determination. Now they have gotten so they are just like other lawyers, they try to postpone the day, instead of getting an adjudication.

I wouldn't take all this time if I felt that there was any question about my jurisdiction. After all, you have argued all sorts of motions in this case for a period of six months.

Mr. Pruitt: Yes, your Honor.

The Court: All right.

Mr. Pruitt: I will offer at this time a certified copy of the file wrapper and contents in the matter of the Bourns patent No. 2,515,980, and ask that this be admitted as defendants' next in order.

The Clerk: Is this admitted, your Honor?

The Court: It may be received.

The Clerk: Defendants' P in evidence.

(The exhibit referred to was marked Defendants' Exhibit P, and was received in evidence.)

[See Book of Exhibits.]

Mr. Pruitt: I offer in evidence a certified copy of the file wrapper and contents of the Bourns patent No. 2,515,981, and ask that that be received as defendants' next [507] in order.

The Clerk: Is this admitted, your Honor?

The Court: Yes.

The Clerk: Defendants' Q in evidence.

(The exhibit referred to was marked Defendants' Exhibit Q, and was received in evidence.)

[See Book of Exhibits.]

Mr. Pruitt: Your Honor, in order to save time I can offer these prior art patents relating to the '981 patent by reference to the exhibit previously filed, and we will offer loose copies to be marked as defendants' next in order.

The Court: All right.

The Clerk: R in evidence.

(The exhibit referred to was marked Defendants' Exhibit R, and was received in evidence.)

[See Book of Exhibits.]

The Court: Are you relying on the whole list?

Mr. Pruitt: Just on the ones relied on in support of the '981 patent.

Mr. Lewis E. Lyon: Which ones are those?

Mr. Pruitt: I will identify them at this time.

The Clerk: Exhibit R.

Mr. Pruitt: R-1, the H. W. Rubinstein patent No. 2,242,327, issued May 20, 1941;

-2, W. E. Schauer patent, No. 2,280,305, issued April 21, 1942;

- 3, W. J. Thayer patent, No. 1,660,979, issued February [508] 28, 1928;
- 4, H. W. Rubinstein patent, No. 2,178,241, issued October 31, 1939;
- 5, H. W. Batcheller, patent No. 2,306,152, issued December 22, 1942;
- 6, J. M. Aufiero, patent No. 2,420,807, issued May 20, 1947;
- 7, H. A. Keip, patent No. 954,518, issued April 12, 1910;
- 8, B. H. Campbell, patent No. 2,125,219, issued July 26, 1938;
- 9, C. O. Nelson, patent No. 2,273,760, issued February 17, 1942;
- 10, M. W. Newton, patent No. 1,004,460, issued September 26, 1911;
- 11, C. E. Mountford, patent No. 1,539,266, issued May 26, 1925.

I will call Mr. Dillon, please.

CLIFFORD C. DILLON

called as a witness by the defendants, being first sworn, was examined and testified as follows: [509]
* * * * *

Direct Examination

Q. By Mr. Pruitt: Mr. Dillon, on or about what date did you make your first sale of a potentiometer? A. March or April of 1951.

Q. And to whom did you make that sale?

A. Naval Ordnance Test Station in Pasadena.

Q. How many instruments were involved in that sale? A. Six.

(Testimony of Clifford C. Dillon.)

Q. When was your next sale of potentiometers in 1951? A. Very shortly after that.

Q. To whom? A. Douglas Aircraft.

Q. And what type of instrument did that involve? A. An E-1.

Q. How many instruments were sold at that time? A. Six.

Q. Thereafter did you make any further sales of [525] potentiometers to NOTS, Pasadena?

A. No.

Q. Did you sell them some accelerometers that year? A. Yes.

Q. At any time since that date have you sold Naval Ordnance Test Station in Pasadena any linear motion potentiometers? A. No.

Q. Did you ever sell any potentiometers to Consolidated Vultee Aircraft, or Convair?

A. Yes.

Q. On or about what date did you make your first sale to that company?

A. Just a little bit more than a year ago.

Q. Did you ever sell linear motion potentiometers to North American Aviation?

A. Yes.

Q. On or about what date did you make your first sale to that company?

A. I believe it was in '52, late '52.

The Court: You said you sold them to North American Aviation; do you know on what they used the potentiometer, whether on missiles or in airplanes, or jets, or on what?

(Testimony of Clifford C. Dillon.)

The Witness: In this particular case it was used on an airplane. [526]

The Court: The only ones that you are certain they used on Government instrumentalities are those that you sell to the Navy direct, is that true?

The Witness: No. If we have a Government contract number on the purchase order, then we know it is going into a Government project.

The Court: But you are selling to others, such as North American Aviation and Douglas, for uses other than Government contracts, are you not?

The Witness: I don't believe so, sir.

The Court: You just told me that North American Aviation used it on ordinary airplanes.

The Witness: That would be for a Government contract, though, in this case, sir.

The Court: Can't yours be used on any other airplanes, airplanes constructed for aviation companies?

The Witness: They could be.

The Court: Do you know whether they are?

The Witness: None that we make at the present time or being so used.

The Court: All right.

Q. By Mr. Pruitt: When was your first sale of an instrument to Bendix Aviation? When did you receive a purchase order?

A. Late in '51. [527]

Mr. Pruitt: What was the answer, please?

(Answer read by the reporter.)

Q. By Mr. Pruitt: From that date to the pres-

(Testimony of Clifford C. Dillon.)

ent, Mr. Dillon, what company has been your principal customer as far as potentiometers are concerned? A. Bendix Aviation.

Q. What model instrument has been purchased by Bendix Aviation? A. Our Model D-1.

Q. I show you now Defendants' Exhibit I for identification, and ask you if that is the instrument you refer to? A. Yes.

Mr. Pruitt: I note this exhibit is only in for identification, your Honor. I offer it in evidence at this time.

The Court: It may be received.

The Clerk: I in evidence.

(The exhibit referred to was marked Defendants' Exhibit I, and was received in evidence.)

Q. By Mr. Pruitt: Mr. Dillon, I show you Plaintiff's Exhibit 3 and ask you to go through that folder and testify which, if any, of the Edcliff models illustrated therein have never been sold by Edcliff?

The Court: They begin with 6, don't they?

The Witness: Yes.

Plate 8. [528]

Q. By Mr. Pruitt: 8 is the model designated A-P1? A. Yes.

The Court: But are you manufacturing it?

The Witness: No.

The Court: Did you ever? Did you start and then abandon it, or what? Or did you make an experimental model, or what?

(Testimony of Clifford C. Dillon.)

The Witness: Experimental model.

Q. By Mr. Pruitt: Is the model that you are referring to Plaintiff's Exhibit 28? A. Yes.

Q. That is the only one that was made of that instrument?

A. This particular design? No. We made six others.

Q. Of the A-P1?

A. Not of the A-P1, but of that instrument there.

Q. Were any of those sold? A. Six.

Q. To whom did you sell those instruments?

A. NOTS.

Q. And that is the sale you mentioned in March of 1951? A. Yes.

Q. Will you continue to look through that folder, Mr. Dillon? [529]

A. Yes. Plate 14, plate 16.

The Court: I lost track. We started with those that you didn't manufacture and now you are telling me those that you did manufacture and sell?

The Witness: No, sir. No, your Honor. Plate 16 we did not manufacture; plate 14 we did not.

The Court: Whatever exhibits of that that are in the record are merely experimental models?

I am trying to summarize your testimony, because it is hard to keep track of figures and models.

Mr. Lewis E. Lyon: I can't understand it. We have just shown one in his hand, and he said he didn't manufacture it. I am somewhat confused, too.

(Testimony of Clifford C. Dillon.)

Q. By Mr. Pruitt: The A-P1 that you identified, Mr. Dillon, is it similar to any other model that you later manufactured and sold?

A. Yes.

Q. Will you identify the plate in Plaintiff's Exhibit 3 which shows the instrument which you manufactured and sold? A. Plate 9.

Q. Calling your attention to plate 14, I show you now an incomplete model which is marked XP, and ask you if that is the same instrument depicted at plate 14, Plaintiff's Exhibit 3? [530]

A. Yes.

Q. Was this instrument ever sold by Edcliff?

A. No.

Q. What were the circumstances under which XP was manufactured by Edcliff.

A. It was to show the engineers at Douglas that we could put the elements for a triple pot such as this all in one cover.

Q. And about what date was that manufactured?

A. Early in '51, about the same time as we were working on the E's, very shortly after.

Mr. Pruitt: I offer this model in evidence, your Honor, as defendants' next in order.

The Clerk: Is this admitted, your Honor?

The Court: It may be received.

The Clerk: Defendants' Exhibit T in evidence.

(The exhibit referred to was marked Defendants' Exhibit T, and was received in evidence.)

Mr. Pruitt: I ask that the clerk mark this in-

(Testimony of Clifford C. Dillon.)

strument for identification as defendants' next in order.

The Clerk: Defendants' U marked for identification.

(The exhibit referred to was marked Defendants' Exhibit U, for identification.)

Q. By Mr. Pruitt: Mr. Dillon, I show you an instrument which has been marked as Defendants' Exhibit U, for [531] identification, and ask you if you can identify that instrument?

A. It is a Model B-1.

Q. And is that model found by you in Plaintiff's Exhibit 3?

A. In several forms, essentially. Here is essentially part of it (indicating).

Q. You are referring to plate 12?

A. Yes.

Q. Is plate 12 the first model similar to the "B" that was made by Edcliff?

A. Plate 16 is the first model. Similar to "B" yes, plate 12.

Q. On or about what date was the model B-1 first sold by Edcliff?

A. '52, around the first of the summer.

Q. '52? A. Yes.

Q. Mr. Dillon, when did you first contact a prospective customer in connection with an attempted sale of a potentiometer?

A. We first contacted a potential customer in December. [532]

Q. Of what year? A. 1950.

(Testimony of Clifford C. Dillon.)

Q. And what company did you call upon at that time? A. Douglas Aircraft.

Q. Did you call upon any particular person at Douglas Aircraft? A. Mr. Bush.

Q. What position did Mr. Bush have with that company at that time?

A. He was the supervisor in charge of flight test.

Q. And who was Mr. Bush? Had you known Mr. Bush prior to the time of this visit?

A. He was a friend of Ed Pitzer's.

Q. And who was present at the time you saw Mr. Bush on the occasion of that visit?

A. Mr. Bush took us into the testing lab and introduced us to the group supervisor in charge of the lab.

Q. And who was "us", Mr. Dillon?

A. Mr. Pitzer and myself.

Q. Did you have a conversation with the person in the testing lab? A. Yes.

Q. What was the substance of that conversation?

Mr. Lewis E. Lyon: Find out who the person was.

The Witness: He was a group supervisor in charge of [532-A] testing.

Q. By Mr. Pruitt: Do you remember the name of the group supervisor?

A. I am not sure of it now.

Q. Who else was present at that time?

A. Besides Ed Pitzer and myself?

(Testimony of Clifford C. Dillon.)

Q. Yes.

A. Mr. Bush was present to begin with, and he left us in the hands of the group supervisor.

Q. What was the substance of the conversation that was had at that time and place?

A. Mr. Bush told him that we were interested in seeing what kind of work was available at Douglas that we could do, and that if he could be of any help to us, he would appreciate it.

He then suggested that we should go see somebody in engineering, and said that a Mr. Waters was in charge of instrumentation on the missile program, and that he would take us and introduce us to Mr. Waters.

Q. Did he do that? A. He did.

Q. Did you have a conversation with Mr. Waters on that same date? A. Yes, I did.

Q. Who else was present at the time of that conversation? [533]

A. Herb Aldinger, and Ed Pitzer was there, but I carried on the conversation with Mr. Waters.

Q. Do you know what position Herb Aldinger has at Douglas Aircraft?

A. At present, no.

Q. At that time?

A. At the time he was assistant to Mr. Waters.

Q. What was the substance of the conversation at that time and place?

A. We indicated that we would be interested, again, in getting into the instrument field, and if there was any opportunity. And he said that there

(Testimony of Clifford C. Dillon.)

definitely was, they were looking for more than one source,—two sources, if they could find them, or possibly more than that; that they wanted people to come in to create competition to reduce the price on the instrument that they were using.

Q. At that time did you have any models of instruments with you? A. Two.

Q. I show you Plaintiff's Exhibit 28, and ask you if that was one of the models that was shown to Mr. Waters on the occasion of that conversation.

A. No, not this exact one.

Q. Was it similar to this one? [534]

A. Similar, yes.

Q. Did you have another type of model there at that time?

A. Yes, we had a model B.

Q. As a result of that meeting with Mr. Waters did you receive any order from Douglas for the production of potentiometers?

A. Not as a result of that meeting.

Q. What was the next contact you had with Douglas relating to the manufacture by you of potentiometers?

A. The next contact, I went back to see Mr. Waters, and he took me to the hydraulics group, where they were doing design work on future requirements.

It was at that time that we also discussed the model C, and the unit that you showed here a while ago with the three elements in one cover.

(Testimony of Clifford C. Dillon.)

Q. The latter instrument you are referring to is Defendants' Exhibit I? A. Yes.

Q. At or about what date was that contact made, Mr. Dillon?

The Clerk: That was Exhibit T.

Mr. Pruitt: T?

The Clerk: Yes.

Mr. Pruitt: Exhibit T. Pardon me. [535]

The Witness: Sometime in February or March of 1951.

Q. By Mr. Pruitt: At that time did you have discussions with any engineer at Douglas with respect to the purchase of the model E-1 instruments from you? A. Yes.

Q. Did you have a conversation with Mr. Simonick on that subject? A. Yes.

Q. What did Mr. Simonick say in connection with the production of that instrument?

A. The production of E-1?

Q. E-1.

A. That it would probably not be a production unit, but they needed it for test equipment.

Q. Did he ask you to prepare suggested drawings to submit prior to the commencement of manufacturing? A. Yes.

Q. And did you do that? A. Yes.

Q. Did Mr. Simonick examine the drawings in your presence? A. Yes.

Q. Did he make any suggestions with respect to the manner, or of any changes that should be made in the instrument? [536]

(Testimony of Clifford C. Dillon.)

A. I think one change that was discussed was the type of mounting arrangement we would use in that particular unit.

Q. At the time of your original discussion with Mr. Simonick with respect to the model E-1, did he tell you the external dimensions of the body member of the instrument?

A. I think that they spelled that out for us, yes. [537]

* * * * *

Q. By Mr. Pruitt: Mr. Dillon, I show you a drawing, which is Plaintiff's Exhibit 33 in evidence, and ask you to look at that, please.

I now hand you the instrument which has been marked as Defendants' Exhibit V, for identification, and ask you to examine that instrument please. Have you examined those matters, Mr. Dillon? A. Yes.

Q. Does the instrument which you have just examined represent the same instrument as is drawn in Plaintiff's Exhibit 33? A. Yes. [552]

Q. And what model instrument is that?

A. B-11.

Q. And is that instrument manufactured by you? A. Yes.

Mr. Pruitt: I will offer the instrument in evidence as Defendants' Exhibit V, your Honor.

Mr. Lewis E. Lyon: Objected to, your Honor, on the ground there is no proper foundation laid as to time or anything else with respect to this matter. It may be something that was made today.

(Testimony of Clifford C. Dillon.)

Q. By Mr. Pruitt: When was the instrument first manufactured by you, Mr. Dillon?

A. In April or May.

Q. And did you sell one of those instruments—

Mr. Lewis E. Lyon: What year?

The Witness: This year.

Q. By Mr. Pruitt: Did you sell one or more of those instruments at or about that date?

A. Yes.

Mr. Pruitt: I will renew the offer, your Honor.

The Court: All right. It may be received.

The Clerk: V in evidence. [553]

* * * * *

Q. Mr. Dillon, when was the first sale of any instrument manufactured by you sold to Convair?

A. Last year; in May or June, I believe.

Q. Will you state the circumstances under which you procured an order for the sale of potentiometers to Convair at or about that time?

A. In the very early months of 1953 we were contacted by an engineer from Bendix Aviation Corporation. They requested that we forward a Model F to their sales representative at Convair, that they would like to have it out for Convair's evaluation purposes.

I followed this up approximately a month and a half later, and talked to Engineering at Convair. They had been very satisfied with the report of the test on the instrument, and were anxious to have us enter into the field of their requirements. From

(Testimony of Clifford C. Dillon.)

that conversation we submitted drawings, and proposals, and were later given an order. [556]

* * * * *

Q. By Mr. Pruitt: Mr. Dillon, I hand you Defendants' Exhibit Y, for identification, and ask you to describe what that document purports to reveal. [559]

A. This document is a list of all the instruments sold to the different organizations, by their model number and quantity of each sold to those organizations.

Q. And when was the date of your first sale of a potentiometer? A. In 1951.

Q. At or about what date or month in 1951?

A. Around April.

Q. And does this schedule continue from at or about April, 1951, up until a current date?

A. Yes, up until June of this year.

Q. Now, was this schedule prepared under your direction or supervision?

A. Yes, it was prepared by my secretary under my direction.

Q. Was the information therein contained based upon records kept by Edcliff in the ordinary course of its business? A. Yes.

Q. What basic vouchers were used in the preparation of this schedule?

A. Purchase orders.

Q. That is, purchase orders received from the various customers listed on the schedule?

A. Yes.

(Testimony of Clifford C. Dillon.)

Mr. Pruitt: I will offer this, your Honor, as the [560] Defendants' next in order.

Mr. Lewis E. Lyon: We object to it on the ground it has not been properly proven or identified, no proper foundation.

The Court: It is evidently a summary made from the books showing sales. Overruled.

The Clerk: Y in evidence.

(The document referred to was marked Defendants' Exhibit Y, and was received in evidence.) [561]

[See Book of Exhibits.]

* * * * *

The Court: I don't know why this elaborate examination, which is argumentative, with a lot of emotion in the voice, or that it is leading to anything. These men have admitted—they claim the patent is invalid, and there has been no contention by them that they invented anything. They claim it is invalid, and, therefore, they took it. So until there is proof of a claim that they invented it themselves, [582] it seems to me that all this insistence as to how they started in business is not material.

They say they deliberately started in business to make this. Neither of them is an engineer. This witness is a salesman, and the other is a machinist. So I can't see why so much time is being taken to argue with him. You are arguing with the witness, and what difference does it make if it was on the 9th or the 15th? What difference does it make

(Testimony of Clifford C. Dillon.)

whether he was still with the Acme Saw Company or not? They are not parties to this action.

Mr. Lewis E. Lyon: Well, if your Honor is satisfied—

The Court: Supposing Pitzer was still employed by Bourns while he was doing that. That wouldn't make any difference ultimately on the infringement, and would not bear on unfair competition, either.

I cannot see the purpose of this elaborate emotional examination, going back and forth to a particular date, and whether it was a Saturday or a Monday.

You have got in evidence the fact that they went into this business, and they went to making potentiometers. They are not claiming that they invented anything. They are not claiming they have a patent. So far they have admitted they imitated, but they claim it is an invalid patent.

So what is the object of this minute examination over a date? [583]

Mr. Lewis E. Lyon: It is to establish those facts, your Honor, which your Honor has so clearly in mind. That being true, I don't think there is any need to pursue it.

The Court: There is no claim by this man that they started out to make something out of their own ingenuity. There has been no such claim so far, and, certainly, it is not proper cross examination of this man. Their counsel are not objecting, but

(Testimony of Clifford C. Dillon.)

there ought to be some limit as to where we are going.

Furthermore, as I told you before, stealing customers is not unfair competition under the laws of California. That gives rise to a special action in the case, and this is practically the only State in the Union which has it. Incidentally, in the original opinion you will find some of the cases that I decided. One of them, the Avocado case. As I say, it is the only State in the Union other than Ohio that has that rule. It started out of the laundry route case. That originated in a peculiar way. It originated in an Appellate Division case in New York, which was later reversed. In the meantime our courts got stuck with this intermediate decision, and followed it.

You are entitled to injunctive relief, but it is not called unfair competition. It is not on that basis. It is called a violation of the relationship, to take a man's customers. But regardless of that, the particular date is not [584] so important. You have got the basic facts there. You have the invoices from which you can argue, but you are going back and forth, and back and forth. You have gone back over those dates from the beginning of November ten times, and I cannot see the importance of whether it was on a Monday or on Saturday afternoon, or whether he did it on his own time, or on Acme's time. [585]

* * * * *

Cross Examination

Q. By Mr. Lewis E. Lyon: I place before you,

(Testimony of Clifford C. Dillon.)

Mr. Dillon, Exhibit V, which I understand is a "B-11" potentiometer of the Edcliff Instruments. I have taken—I don't know whether you would call this the cover or side plate—off from it. Which would you call it?

A. It would be called the cover, Mr. Lyon.

Q. (Continuing): —to expose the insides. Now, neither the resistance element nor the shorting strip in the B-11 model, Exhibit V, is mounted in the cover, is it?

A. That is right, sir.

Q. In that instrument, the way in which the contacts are connected to the resistance element, and to the shorting strip, is by little fine wires which are soldered to the bottom of the contact elements, isn't that correct?

A. To the bottom of the feed through terminals.

Q. And the wound resistance element in the B-11 structure is mounted on a piece which is inserted in the [586] body, is it not?

A. Yes, Mr. Lyon.

Q. And that element which carries the resistance element is secured to the body how—by means of the two little screws that you see?

A. No, sir. That is cemented in there.

Q. Cemented in? A. Yes.

Q. Now, we are looking at one side with what you called the cover off, and looking straight at the face of the wound resistance element, is that true?

A. Straight at the side—

Q. Straight at the face or side?

(Testimony of Clifford C. Dillon.)

A. Side, yes, sir.

Q. All right. Now, on the other side of that inserted bar or piece which is cemented in position in the body is the shorting strip? A. Yes.

Q. And the two little contact elements which are carried by the post, which slides in the body, bridge between the resistance element which we have just positioned and the shorting strip which is on the other side of that bar which is cemented in the body, isn't it? A. Yes, sir.

Q. You state that this B-11 potentiometer, Exhibit [587] V, was first made when?

A. In April or May I believe, sir.

Q. Of this year? A. Yes, sir.

Q. And submitted, was it not, to North American Aviation? A. Yes, sir.

Q. Were any of them sold to North American Aviation? A. Yes, sir.

Q. On a test sale?

A. I don't understand your terminology of test sale, Mr. Lyon.

Q. Did they put them in test to determine whether they were satisfactory, to your knowledge?

A. I believe they did, yes, Mr. Lyon.

Q. And you endeavored to sell this particular B-11 on an order to them? A. Yes, sir.

Q. And you didn't get the order, did you?

A. No, sir.

Mr. Lewis E. Lyon: I will ask that the B-11 sample be put together again.

Q. By Mr. Lewis E. Lyon: In fact, to your

(Testimony of Clifford C. Dillon.)

knowledge that order was given to Bourns Laboratories for the standard type of potentiometer where the shorting strip and the wound [588] resistance element were mounted in the cover of the potentiometer, isn't that true? A. No, sir.

Q. You don't know whether it was or not?

A. No, sir.

Q. Is that what you mean?

A. That is what I mean, sir.

Mr. Lewis E. Lyon: I will state for the record at this time, your Honor, so that there may be no misunderstanding on the subject matter, that as far as the B-11 instrument is concerned, we do not claim that that instrument is one copied from Bourns Laboratories, or that it comes under the patent in suit. We are making no such claim, nor have we at any time. * * * * * [589]

Q. By Mr. Lewis E. Lyon: This summary, Exhibit Y, was prepared by your secretary, was it?

A. At my direction, yes, sir.

Q. And the information that is compiled in there was taken from your books, was it?

A. From purchase orders.

Q. From purchase orders? A. Yes, sir.

Q. And the information that is tabulated on here of the purchase order numbers is the information which is shown on those purchase orders, is it?

A. Yes, sir. [596]

Q. Now, your secretary, then, separated these orders, did she, and endeavored to classify these

(Testimony of Clifford C. Dillon.)

different sales in the manner in which the classification of Exhibit Y is made; is that true?

A. Yes, sir.

Q. And the total material that she had to make these separations into different classes was the material which is set forth in Exhibit Y, and that is all, isn't it?

A. Working with me, sir, yes.

Q. And as far as a purchase order which states 306YX1815-53, does that give you any indication at all as to what use is to be made of the equipment?

A. That particular number probably doesn't Mr. Lyon, but the other accompanying information possibly would.

Q. And the information that is set forth in this tabulation with reference to these purchase order numbers, quantities, and the customers is what is contained on the purchase orders, is it not?

A. Would you repeat that question, please, Mr. Lyon?

Mr. Pruitt: Please speak out, Mr. Dillon.

The Witness: I would like to have that question repeated.

Mr. Lewis E. Lyon: Yes. If the reporter will please read the question.

(The question was read.) [597]

The Witness: Yes, sir.

Q. By Mr. Lewis E. Lyon: And that is true throughout this compilation in Exhibit Y; is that true? A. Yes, sir.

Mr. Lewis E. Lyon: That is all.

(Testimony of Clifford C. Dillon.)

The Court: Any redirect?

Mr. Pruitt: One question, your Honor.

Redirect Examination

By Mr. Pruitt:

Q. In connection with the preparation of Exhibit Y, Mr. Dillon, did your counsel advise you which models of instrument should be included in that schedule? A. Yes, sir.

Q. And the only instruments included in that schedule are those instruments which your counsel advised you to include in that schedule; is that correct? A. Yes, sir. * * * * [598]

GARDNER P. WILSON

called as a witness by and on behalf of the defendants, having been first duly sworn, was examined and testified as follows:

The Clerk: What is your name, please?

The Witness: My name is Gardner P. Wilson.

Direct Examination

Q. By Mr. Pruitt: Where do you reside, Mr. Wilson?

A. I live at 1435 Old House Road, Pasadena, California.

Q. What was your education, please?

A. I graduated from the California Institute of Technology in 1938 with a Bachelor of Science degree in engineering.

Q. Any specialized field of engineering?

(Testimony of Gardner P. Wilson.)

A. Yes, electrical engineering.

Q. By whom were you employed after you received your degree from Cal Tech?

A. My first employer was the Mott-Smith Geophysical Corporation of Houston, Texas, and my position was that of a computer. I went to Egypt for this company to work for the Socony Vacuum Oil Company in oil exploration work, and was [611] made a party chief while I was in Egypt.

Q. During what period of time were you so employed?

A. This was from 1938 to 1940; approximately two years exactly.

Q. What was the nature of your duties in that position?

A. I was party chief of a double gravity meter oil exploration crew during most of that interval.

Q. Did you have occasion to use and did you use precision instruments, including electronic instruments, during that period? A. Yes, sir.

Q. What was your next employment?

A. My next employment was with the Lockheed Aircraft Corporation, where I was employed as a junior engineer, and I worked on the electrical design of the P-38 aircraft.

Q. During what period of time were you so employed?

A. This was 1940 to 1941; approximately one year.

Q. And what was your next employment?

(Testimony of Gardner P. Wilson.)

A. My next employment was with the Western Electric Company in New York. [612]

Q. During what period of time?

A. 1941 through 1945. Four years in total.

Q. What was your position at that company?

A. My final position was head of the field testing division of the field engineering force of the Western Electric Company.

Q. What was the nature of your duties in that work?

A. I was in charge of a group of engineers who were engaged in the first military tests and trials of radar, sonar, and magnetic detection equipment.

Q. Did you use any potentiometers in that work?

A. Yes, we used many potentiometers.

Q. What was your next employment?

A. My next employment was with the Naval Ordnance Test Station in Pasadena, U.S. Naval Ordnance Test Station. There was a slight period of about one month where it was actually run by Cal Tech. I was employed by Cal Tech for one month, and then it became officially part of Navy, but it was the same group of people.

Q. What was your position with the Naval Ordnance Test Station, Pasadena?

A. I started out as group head of a small group of engineers, which I held for a year or two, and progressively up to the head of the test division, which included all instrumentation development and testing. [613]

Q. During what period of time were you em-

(Testimony of Gardner P. Wilson.)
ployed at the Naval Ordnance Test Station, Pasadena?

A. From 1945 to 1952, a period of six years.

Q. Did you use potentiometers in the work done by you at the Naval Ordnance Test Station, Pasadena? A. Yes, sir.

Q. For what purpose or purposes were potentiometers used at that organization?

A. Well, potentiometers are used for a number of things. One of them is to divide a voltage to take a ratio of a voltage. The name of "potentiometer" implies just this function, and this is used in many instruments in many places. Other places include transducers, where a motion is translated into a change of resistance or a change in voltage, as measured across the potentiometer, as a function of that motion.

Q. Did you do telemetering work at Naval Ordnance Test Station, Pasadena?

A. Yes, we did telemetering work on many occasions.

Q. In connection with what device or apparatus did you use telemetering equipment?

A. We telemetered from guided missiles, and telemetered from torpedoes while in flight from the aircraft that was dropping them.

Q. By whom are you now employed, Mr. Wilson?

A. I am now employed by the Consolidated Engineering [614] Corporation in Pasadena, California.

(Testimony of Gardner P. Wilson.)

Q. What is your position with that organization?

A. I am their chief development engineer.

Q. And what is the nature of your duties in that capacity?

A. I am in charge of all development projects in the engineering division at Consolidated Engineering.

Q. Do you have any other engineers under your supervision in that capacity? A. Yes, sir.

Q. How many?

A. Approximately 25 development engineers.

Q. While you were at NOTS, Pasadena, did you or others in that organization do winding of coils and resistors? A. Yes, sir.

Q. Did you make any potentiometers while you were at NOTS, Pasadena? A. Yes, sir.

Q. Did you do so as early as 1946?

Mr. Lewis E. Lyon: That is objected to, your Honor, on the ground that it is without the pleadings of this case. There is no pleading in this matter of any prior inventor or prior use.

Mr. Pruitt: It is a preliminary question leading to a description by this witness of the project as testified to [615] by Mr. Bourns.

The Court: Overruled.

Mr. Pruitt: Will you read the question, please?

(The question referred to was read by the reporter as follows: "Q. Did you do so as early as 1946?")

The Witness: Yes, sir.

(Testimony of Gardner P. Wilson.)

Mr. Lewis E. Lyon: I object to that also on the ground, your Honor, that it is leading.

The Court: Overruled. He is an expert, and he may answer it. The answer doesn't rise above the reasons that he gives for it. Go ahead. [616]

Q. By Mr. Pruitt: Have you ever made a potentiometer, Mr. Wilson? A. Yes, sir.

Q. Did you make one during the time you were employed at NOTS, at Pasadena?

A. Yes, sir.

Mr. Lewis E. Lyon: I object, your Honor, and I move to strike the answer on the ground it is an endeavor to put in something without the pleadings which requires notice.

The Court: I am admitting it for the same limited purpose for which I allowed similar questions of another witness; I think Mr. Dillon, or one of the other witnesses. I forget who. Go ahead.

Q. By Mr. Pruitt: What size or sizes of wire did you use for that purpose, Mr. Wilson?

A. I think the finest wire that I have used personally is two-thousandths in diameter. This is a standard wire size.

Q. Have you ever used enameled wire for that purpose? A. Yes, sir.

Q. When using enameled wire for that purpose, is it necessary to remove the enamel from a portion of the wire before incorporating it into a potentiometer?

A. In order to make contact upon the sliding

(Testimony of Gardner P. Wilson.)

member, you must go through the insulating surface of the enamel that is on the wire. [617]

Q. And have you ever done that?

A. Yes, sir.

Q. In what manner did you accomplish that?

A. By various abrasive techniques, in which the enamel is removed either by a crocus cloth, sulphuric oxide, rouge, tripoli, corundum, file, anything to abrade the surface and take the enamel from the surface and expose the pure wire.

Q. Did you do that prior to 1950?

A. Yes, sir.

Q. While you were employed at NOTS, Pasadena, was Marlan E. Bourns also employed there during any portion of the period?

A. Yes, sir.

Q. During what period?

A. From the period that I started at the Naval Ordnance Test Station, which was in October, 1945, until Mr. Bourns resigned, approximately a year later.

Q. What was Mr. Bourns' position at NOTS during that period?

A. Mr. Bourns was employed as a junior physicist, grade P-3.

Q. Were the respective duties of yourself and Mr. Bourns in any way related during that time?

A. Yes, sir.

Q. What was the relationship? [618]

A. I was his supervisor.

Q. Did you have a group of persons under your

(Testimony of Gardner P. Wilson.)

supervision or control or direction during that period of time at NOTS? A. Yes.

Q. What were the functions of the group that you headed in that organization?

A. The functions of this group were to develop instrumentation systems and equipment for the purpose of telemetering data from guided missiles, and like devices.

Q. Were potentiometers used in the requirements of those functions at that time?

A. Yes, sir.

Q. In what way or ways were they used at that time?

A. Their use was to translate a motion into an electrical signal which could be recognized and measured on the ground or by the receiving station to indicate the motion of the part in question.

Q. What types of potentiometers were being used at that time for those purposes?

A. We were using the standard available rotary type potentiometers, as manufactured by General Radio, Fairchild Instruments, G. M. Giannini Corporation in Pasadena, and Beckman Helipots, I believe.

Q. What particular manufacturer or manufacturers of [619] potentiometers that were used for telemetering purposes were used in connection with missiles at that time?

The manufacturers included Giannini of Pasadena, Fairchild, General Radio. As I recall, we used quite a few Giannini pots.

(Testimony of Gardner P. Wilson.)

Q. What type of Giannini pot was used in that way?

A. One of the types that was used was their Microtorque potentiometer, which is a very tiny device made of very fine wire, which is capable of being driven by a very delicate type of phenomena.

Q. Can you tell us, of your own knowledge, what the performance characteristics of that potentiometer were at that time?

A. Yes. This was a wire-wound potentiometer of very low torque. In other words, the friction drag to cause the wiper to move was very small. It was a very useful device.

Q. Do you know, of your own knowledge, the characteristics with respect to resolutions?

A. Yes. I believe we used the 2,000 ohm type, 2,000 to 5,000 ohm type, and the resistor card was wound with probably a thousand turns or more. The resolution there would be one part in 1,000 divided on a 360-degree arc.

Q. What were the characteristics of those potentiometers with respect to linearity at that time?

A. The linearity could be specified as purchased from [620] the manufacturer. As I recall, the standard model was a half a per cent, and it could be obtained in a tenth per cent size.

Q. What were the characteristics of those potentiometers with respect to repeatability?

A. The repeatability under constant temperature was probably good to a tenth of a per cent.

Q. Do you know, of your own knowledge, the

(Testimony of Gardner P. Wilson.)

diameter of the wire that was used in the Giannini pots that were being used by NOTS at that time?

A. It seemed to be two-thousandths or less.

Q. Did you have any discussion with the other persons in your group relative to using some other type of potentiometers than you were using at that time?

A. Yes, we had discussions on many occasions, in that this was one of our most useful types of transducer, and we had often wished for a linear device of convenient size and of convenient resistance value to match our telemetering unit. [621]

Q. Had you previously heard of a linear motion potentiometer at that time?

Mr. Lewis E. Lyon: That is objected to as calling for hearsay evidence, your Honor.

The Court: Overruled. He may answer.

The Witness: Yes, sir. I have used linear motion potentiometers for at least 25 years.

Q. By Mr. Pruitt: What types of linear motion potentiometer were available at that time?

A. While at NOTS?

Q. Yes, in 1946.

A. As I recall, there were large types as manufactured by CENCO, James Biddel, and others of the variety used in a physics laboratory that many people have seen of the hundred watt type. Practically all physics and engineering students are exposed to the use of these devices. They are called slide wires, very often.

(Testimony of Gardner P. Wilson.)

Q. Did you know of linear motion potentiometers in 1946 that were of small size?

A. Yes, sir, I recall many years ago using an adjustable grid leak manufactured by the Pilot Radio Company, now defunct, which was smaller than the diameter of a pencil, and perhaps two inches long. It was glass, a glass cartridge, and it was to vary the grid leak of the old-fashioned radio receivers. [622]

I also recall seeing, as parts of portable radios, and on hearing aids, very small linear potentiometers.

Q. Do you know of your own knowledge, Mr. Wilson, the various companies that are engaged in one or another aspect of the United States Government guided missile program?

A. I think this is general knowledge among the engineering profession.

Mr. Lewis E. Lyon: I move to strike the answer, your Honor.

The Court: I will strike the answer, not because it is not responsive, but it is immaterial. He is asking you specifically if you knew the companies.

The Witness: Yes, sir. All the air frame manufacturers, Lockheed, Boeing, Convair, Douglas, Fairchild, Vultee, Republic, Bell, Martin, all the air frame manufacturers.

The Court: Did you mention Boeing?

The Witness: Yes, I mentioned Boeing, and also mentioned the East Coast companies, Martin, Bell.

The Court: I am sorry. I didn't hear Boeing.

(Testimony of Gardner P. Wilson.)

Q. By Mr. Pruitt: Was that information available to persons in the general public?

Mr. Lewis E. Lyon: I object to that, your Honor, as calling for a conclusion of the witness.

The Court: I will sustain the objection. That is a conclusion to be drawn by the court. [623]

Other than airplane companies, what companies might be in the field at all to purchase potentiometers?

The Witness: Any company that is anxious to measure something. This might be an oil refinery; this might be a steel company who wants to know the position of their rollers; this might be a tank farm in which they want to know how much fluid is in the tank; this might even be a milk company.

The Court: Tell me, I am interested, what could a milk company find out?

The Witness: See how much milk they have got in the tank.

The Court: I see.

The Witness: By attaching a float and then coupling it to a potentiometer. In fact, the gas gauge of your automobile does exactly this same thing.

The Court: All right.

Q. By Mr. Pruitt: During the period 1946 to 1950, Mr. Wilson, were you familiar with the materials that were commonly used by potentiometer manufacturers for the various components included in their products? A. Yes, sir.

Mr. Lewis E. Lyon: I suppose, your Honor, that to this matter of—

(Testimony of Gardner P. Wilson.)

The Court: I made a mistake awhile ago. I said I allowed these questions to be asked of Mr. Dillon. These were allowed of Mr. Bourns. Wasn't that the name of the other [624] witness who testified along this line?

Mr. Pruitt: Mr. Simonick testified—

The Court: Yes, Simonick. Strike out Bourns. He was the scientist.

Mr. Lewis E. Lyon: This testimony is received subject to my objection that it is without the pleadings of the case?

The Court: That is right. The object, merely, is to counteract the statements of the plaintiff that a certain problem existed in the industry, and it was solved in a certain way.

Of course, if you read the opinion I wrote for the Court of Appeals in the Six Wheel case, Pointer against Six Wheel, you will find that courts pay very little attention to persons who, after a thing has been discovered, come in and say, "Why, there is nothing to it, anybody could have done that years ago." The fact remains that they didn't do it.

Mr. Pruitt: I understand that, your Honor.

The Court: That is our answer.

Mr. Pruitt: The principal purpose—

The Court: And that case is the law of the Circuit, because it isn't just my opinion, but it is the opinion of the court that I wrote on an appeal from a judgment in Oregon, where a man had invented a fifth wheel, and they pooh-poohed the idea, that there was nothing to it, anybody could have done it.

(Testimony of Gardner P. Wilson.)

But the fact remains that he was the [625] only one who succeeded. So I wrote the opinion for the court, and I told them it is very easy to have what the French call *esprit d'escalier*, and that is the wit of the stairway. That is, as you are leaving the house, you know, by the stairway, you think of the smart witty things you could have said. The French call it *esprit d'escalier*, stairway wit.

However, as I say, I am not passing judgment on this; I am merely telling you that testimony of this character is, at best, negative. However, it is admissible for whatever weight I will give it.

Mr. Pruitt: This has a dual purpose. It is to define the scope of the problem as distinguished from what Mr. Bourns explained; and, further, to show that the trade secrets claimed by Mr. Bourns were well known to others.

The Court: I want to say this. I am saying it at the present time. I am not very much impressed by the strength of the proof on trade secrets, as you probably have gathered, and I can say that when all of the plaintiff's evidence is in and they are not going to bring in new things in rebuttal. They won't be permitted to. I am not very much impressed that this is a case where trade secrets have been violated. Ultimately anybody in the field would know the customers. And I am not going to take the laundry route cases, which are unique to the State of California and change them into a new ground for unfair competition, much as I believe in the concept of unfair practices, as I call it, rather—much as

(Testimony of Gardner P. Wilson.)

I believe that it is a good judicial concept, that it helps out many a time when the justice of the case cannot be achieved otherwise.

In fact, I gave a short talk on it in New York, where a friend of mine had attacked the concept, so far as it applied to copyright, by claiming that courts are not to resort to this nebulous thing, but rather be consistent and sustain certain things in other ways. And I told him the difficulty with him is that he never has been a judge, and if he, like myself, had been a judge and had seen many instances where you can't do justice in other ways except by resorting to this, as I illustrated by the Looz case, he would find out that it is a very helpful thing for a court of equity.

However, as I say, the record is not very impressive at the present time. There is always a good deal of feeling where an employee goes out and starts to manufacture a product of his employer, and competes with him in the field, there is always a good deal of feeling.

Yesterday, when we were talking informally in chambers I referred to Kammerer against McCullough, a similar case, where a man absolutely untrained in the field, he wasn't even a machinist, he was a carpenter, went out and started to produce a product, which I held was infringement of a patent.

However, let us go on. [627]

Before the witness goes on, I will give you the citation for the opinion. Pointer vs. Six Wheel Corporation, 177 Fed. 2d 153.

(Testimony of Gardner P. Wilson.)

Mr. Pruitt: Will you mark this, please?

The Clerk: Defendants' Exhibit AB, marked for identification only.

The Court: All right.

(The exhibit referred to was marked Defendants' Exhibit AB, in evidence.)

[See Book of Exhibits.]

Q. By Mr. Pruitt: Mr. Wilson, I show you a copy of H. W. Rubinstein patent No. 2,242,327, issued May 20, 1941, and particularly to figures 11 through 16 thereof, and ask you if you are familiar with that patent?

Mr. Lewis E. Lyon. That is objected to, your Honor, on the ground that the witness has been in no way qualified in the field of patents.

Mr. Pruitt: Your Honor, he is not offered as a patent expert, but a mechanical engineer who can testify to the manner in which the device functions, which is illustrated in the patent.

The Court: All right. Is that the same as R-1?

Mr. Pruitt: Yes, your Honor. The last three digits are 327.

The Court: What are you talking about? [628]

Mr. Pruitt: Referring specifically to page 2, figures 11 through 16. It is on the second page of that patent.

The Court: What page?

Mr. Pruitt: Figures 11 through 16.

Q. By Mr. Pruitt: Do you understand the construction of the device illustrated in those figures, Mr. Wilson? A. Yes, sir. [629]

(Testimony of Gardner P. Wilson.)

Q. By Mr. Pruitt: What kind of a device is it?

A. This is a linear motion potentiometer.

Q. I show you Defendants' Exhibit AB, for identification, and ask you if that accurately depicts the potentiometer shown in the figures in the Rubinstein patent.

Mr. Lewis E. Lyon: That is objected to on the ground the witness has not been qualified to answer the question.

The Court: Furthermore, I don't know whether this has been reduced to practice. If so, then an actual device should be brought in.

Furthermore, you do not infringe the illustrations. You infringe the claims. And, furthermore, Rubenstein does as everyone else does, he says that this illustration is only one of his methods of embodying the invention, so I do not see how somebody can tell anything from a figure. If he has studied the entire patent and can tell from the teachings of the patent what is embodied in these, then that might be a good preliminary question, but, ultimately, a disclosure, prior disclosure, especially when the identical patent was before the Patent Office and is cited cannot destroy a patent. You cannot destroy a presumably valid patent by having somebody get up and take a figure of a patent, and without any relation to what the patent teaches, start to describe it in a manner so as to show that it would read upon the claims in suit. [630]

Mr. Pruitt: Your Honor, the purpose for which I was asking these preliminary questions was to

(Testimony of Gardner P. Wilson.)

ask this witness, who is an experienced engineer, whether or not the illustrations shown in the Rubin-stein patent are structures which anticipate the structures that Mr. Bourns has.

The Court: You cannot ask that question, because that would decide the law suit. An expert cannot determine that.

Mr. Pruitt: I did not intend to ask him that question.

The Court: No. I like experts, but not to that extent. I never allow an expert to answer that question. Furthermore, the law of the Ninth Circuit is that even if 1500 experts say that a certain structure reads upon a claim, or doesn't read upon a claim, that does not decide it. The court can brush them all aside and still decide whether there was infringement or a lack of infringement on the basis of that.

Mr. Pruitt: Your Honor, I didn't intend to ask the witness the conclusionary question.

The Court: No, I am not going to allow a model to be constructed.

If this is only a paper patent and has not been reduced, then he can interpret it for us and say what it shows, but it is not his function to say whether it is anticipatory or not. That question cannot be asked in this Circuit, or in any other circuit.

For instance, on the question of doctors, we start with [631] the Lumbra case (290 U.S. 551), and a doctor may be asked whether in his opinion a man

(Testimony of Gardner P. Wilson.)

would be harmed if he worked, and from that the court may infer whether a man is totally or permanently disabled, but you cannot put a doctor on the stand, even if he examined the man, and ask him the direct question, because that is what the court has to determine. And our courts of appeals, beginning with the case of Stephens vs. U. S. (73 F.2d, 695) draw those lines, and in patent litigation that line has been drawn a long time ago.

You can ask him if a certain structure reads upon a claim if he is a patent expert. I don't know whether this man has ever seen a patent.

Mr. Pruitt: I am not putting him on for that.

The Court: Or whether he can interpret claims. I have great admiration for Cal Tech, but, after all, you know they do not all turn out to be patent experts. Some of them have come in as expertees. Dr.—what is his name, who testifies so often? Dr. Mac-somebody?

Mr. Lewis E. Lyon: Dr. McKeown, now deceased.

The Court: Dr. McKeown. Furthermore, I held a patent infringed on a brick, an insulating brick, against the opinion of the greatest authority on insulation in the United States, Professor Knudson. He wrote a book on insulation and notwithstanding the fact that he gave his opinion—he didn't give the opinion that the patent was infringing, but he merely [632] stated that in his opinion there was nothing new about this particular device, it was known in the art before—nevertheless, I held that

(Testimony of Gardner P. Wilson.)

it was new, and it was infringed, and what is more, the court of appeals sustained me on it.

Mr. Pruitt: Your Honor, I am afraid I haven't expressed myself clearly. What I intend to prove by this witness is that the structure shown in the illustration in the Rubinstein patent could have been used for the same purpose for which the Bourns instrument was used, and it seems to me that this witness is qualified to state that if an instrument were constructed in accordance with the illustration, it would perform the same function as the Bourns instrument.

The Court: That does not destroy patentability.

Mr. Pruitt: I think it is material, your Honor, to the nature of the problem that faced Mr. Bourns in 1946.

The Court: No, that does not do it. You can achieve the result by different means.

There is already evidence in the record that they used a different means. There is already evidence from one of your own witnesses that the embodiment was more economical, and that, in itself, would be a patentable combination.

Remember, I do not take any stock in that statement of Mr. Justice Douglas that there has to be the spark of genius.

Mr. Pruitt: I understand that.

The Court: I don't believe that is a good criterion, [633] and I don't think the court as it is presently constituted would follow it. I think simple things may be the subject of invention. That is why

(Testimony of Gardner P. Wilson.)

I sustained the zipper patent in the Hookless Fastener case. It is a simple patent. As a matter of fact, the man struck on an invention by doing a sloppy job rather than good work. He found that by interlocking things in a sloppy manner he could achieve a certain result. Before that it was a rigid thing, and could not be used in such things as women's skirts, purses, and men's trousers, and he brought about that flexibility.

Mr. Pruitt: Your Honor, what I intended to do through this witness was not only to show that the same result would be achieved, but that substantially the same means are applied as in that illustration.

The Court: No, you cannot do it that way. I want to say that I have great admiration for these scientists, especially young scientists. I happen to be one of the parents of a very brilliant young scientist in the atomic field. He got his Ph.D in Berkeley before he was twenty-two, is now teaching at Berkeley, and is a professor of the University of Illinois. So I have great admiration for these scientists, but I want them to stay within their field.

Perhaps this man has read this thing. But how do I know he understands the teaching of this patent? A man may be very brilliant and not be able to read a set of lawyers' claims. [634]

Mr. Pruitt: Very well, your Honor.

The Court: He can describe what, in his opinion, that figure represents, and what elements he sees

(Testimony of Gardner P. Wilson.)

there. He can describe that as an electrical engineer.

Mr. Pruitt: I believe that is the pending question, your Honor, whether he understood the structure illustrated in that drawing.

The Court: No. I thought you were showing him something and asking whether that was constructed according to the teachings of this patent.

Mr. Pruitt: I beg your pardon. I think your Honor is correct, but I asked him to compare this illustration, Defendants' Exhibit AB, for identification, with the illustration in the Rubinstein patent, and I asked him if it was a correct depiction of the structure shown in the Rubinstein patent.

The Court: I have no objection to that. I have no objection to his answering that question.

The Witness: Yes, sir, it is.

The Court: All right.

Q. By Mr. Pruitt: Will you describe the structure that is illustrated in the Rubinstein patent shown you?

Mr. Lewis E. Lyon: What was that question?

(The question was read.)

Mr. Lewis E. Lyon: That is objected to on the ground he [635] has not been qualified to answer the question.

The Court: I do not think that his description would go. We have to take the description given by the inventor as illustrative of his device.

Mr. Pruitt: Your Honor, my understanding was that the illustrations of the patent are supposed to be understandable by a person skilled in the art,

(Testimony of Gardner P. Wilson.)

from the illustration itself. If that is true, I think this witness is competent to testify.

The Court: Suppose I interpret them in a different manner than the man has described them? You see, as a matter of fact, the scope of illustrations in patent litigation is very limited, and you cannot use them to enlarge the scope of the patent. Sometimes you may use them to narrow the claim, but, ultimately, it is the claims that are infringed, not the figures represented by the claims.

Mr. Pruitt: I understand.

The Court: If that were true, then a man might describe an illustration, and illustrate it, and then his claims would be useless.

Mr. Pruitt: My understanding, your Honor, was that on the prior art if the illustration in a prior art is broader than the claims of that patent, it is anticipatory of a subsequently issued patent, even though the subsequently issued patent does not infringe the claims of the prior patent.

The Court: Well, an invention is anticipatory. An [636] invention is anticipatory, not an illustration of the invention. And what the invention is, is measured by the claims allowed. You would raise the illustration to a position which it does not occupy in the law of patents. Now, sometimes your file wrapper history would show.

For instance, I talked about the Joyce case, the Joyce patent. Let me get that opinion. That is Joyce vs. Solnit, 29 F. Supp. 787. In that case Mr. Joyce received a patent, a very limited patent, for

(Testimony of Gardner P. Wilson.)

an enclosed inner sole of a shoe, a platform shoe, and the file wrapper showed that that is all he was allowed, that all his claims to other platform shoes were disallowed. Solnit came out and produced a platform shoe which broke the inner sole and put in round parts as a means of heightening the shoe, and then Joyce claimed he violated the patent. I held that he did not. That is what broke the exclusive market for Joyce in platform shoes, and that is the decision in the Solnit case. If you look it over, you will find that following that decision all sorts of platform shoes appeared. Joyce still has a very fine shoe, but he does not claim the exclusive right to all platform shoes. It is only shoes which have an inner sole encased in a certain manner.

Mr. Pruitt: Yes, your Honor. We expect to rely upon a similar argument in this case.

The Court: That is all right. I will let you argue the [637] matter, but I don't want the experts to do the arguing. If the experts wants to describe things, all right.

Now, I don't think there is any question pending. Is there?

(The question referred to was read as follows: "Will you describe the structure that is illustrated in the Rubinstein patent shown you?")

The Court: All right. I will allow it to go in. Of course, I will pay no attention to his answer, I will say that right now. But if it gives you the satisfaction of having it in the record, all right.

(Testimony of Gardner P. Wilson.)

You see, I am very jealous of the judicial prerogative, having been a judge for twenty-six years. I love experts. As a matter of fact, I have sold the bar and the bench in the East on the idea of court-appointed experts, as we have in California. I am very, very strongly in favor of experts.

As a matter of fact, I went back to an article I wrote, or a lecture I gave before the American Bar Association on the Prettyman report, a report of a committee of which I am a member, and I went back and discovered the first use of experts in the English-speaking world, in 1500-something, where the court said, "If we need any assistance in the art, we will have it." That is the first actual reference by a court to the use of an expert, other than the Latinists [638] they used to employ when pleadings were in Latin, and some of the judges not being very good Latin students, employed Latinists to interpret the pleadings for them.

Now, if he wants to describe it, that is all right, but I will go by the description the inventor gave, which is what the Patent Office must have done, because this was one of the references which they cite.

Mr. Pruitt: Your Honor, I think in view of your remarks I might save a little time if I could make a brief offer of proof at this time.

The Court: No, I don't want an offer of proof. They are not allowed in my court. Your question should be sufficient.

I have told you he may answer the question. I have told you also that I shall exercise my right of

(Testimony of Gardner P. Wilson.)

disregarding his description if it departs from the description given by the inventor in this patent, which I have a right to do. But you can put it in. And if we had a jury here, I would instruct them in the same manner, that they have the right to disregard it.

Mr. Pruitt: Your Honor, if I may explain my problem, that is a preliminary question.

The Court: Too many of these are preliminary. Go ahead and put it in. You see, I have a right to say I do not want any experts. You know that, don't you? [639]

Mr. Pruitt: Yes, your Honor, I do.

The Court: I merely say that if he gives a description which is different from that given by the inventor that I will disregard it.

Mr. Pruitt: Very well, your Honor. I will proceed to another subject.

Q. By Mr. Pruitt: Mr. Wilson, have you ever been required to test the performance characteristics of potentiometers? A. Yes, sir.

Q. Did you have occasion to do that while you were at NOTS at Pasadena? A. Yes, sir.

Q. Prior to the year 1950? A. Yes, sir.

Q. What characteristics did you customarily test in potentiometers during that period?

A. The customary tests were linearity, repeatability, temperature coefficient as a function—resistance as a function of temperature, noise, and, of course, resistance value as a function of motion. That is a part of the linearity test.

(Testimony of Gardner P. Wilson.)

Q. What test equipment did you use at NOTS to determine linearity?

A. Linearity is an expression or a plot of position [640] versus the electrical behavior. This requires a mechanical measuring device to detect the motion, which includes an angle—in the case of a rotary potentiometer it is an angle measuring device, and electrically it requires a Wheatstone bridge.

Q. And is that the device you used at NOTS to make that test? A. Yes, sir.

Q. What test equipment did you use during that period to determine the total resistance of a potentiometer?

A. The total resistance was usually measured with an ohm meter or with a Wheatstone bridge for high accuracy.

Q. Did you make the bridge yourself, or purchase it commercially, or how did you acquire that?

A. We purchased the bridge from General Radio Corporation in Massachusetts.

Q. After Mr. Bourns left NOTS in Pasadena in November, 1947, did you have any further dealings with Mr. Bourns?

A. Yes, several— [641]

* * * * *

The Court: I want to call attention to something here. I have been looking for it in the patent, and I have got it now. This is to show how unfair it is to seek to have someone interpret a drawing in a

(Testimony of Gardner P. Wilson.)

different manner from the manner in which the inventor in the patent, as allowed, described it.

I am reading from Rubinstein, the Rubinstein patent, granted on May 20, 1941, after it had been pending for over three years. The application was dated April 13, 1938. After he gives the two descriptions, he says:

"While I have shown and described two constructions in which the invention may be advantageously embodied, it is to be understood that the constructions shown have been selected merely for the purpose of illustration or example and that various changes in the size, shape, and arrangement of the parts may be made without departing from the spirit of the invention or the scope of the subjoined claims."

And that is contained in every patent, even Bourns, in the patent in suit. It has the same or similar language. It gives two embodiments of the invention.

All right. Go ahead. [642]

* * * * *

Cross Examination

Q. By Mr. Lewis E. Lyon: Mr. Wilson, when you went to work for the Naval Ordnance Training Station— A. Test Station.

The Court: Testing Station. He corrected you.

Q. —Testing Station, Mr. Bourns was already working there, was he not? A. Yes, sir.

Q. And he had been working there for some time? A. Yes, sir.

(Testimony of Gardner P. Wilson.)

Q. Before you went to work there did you have any knowledge as to what Mr. Bourns was doing?

A. He told me what he was doing when I got there.

Q. I see. Now, isn't what Mr. Bourns did at the [646] Naval Ordnance Testing Station primarily concerned with pulse position modulation transmitter and receiver?

A. And the end organs to drive it, yes.

Q. And wasn't there as a matter of fact a patent granted to Mr. Bourns on that development?

A. Yes, sir.

Q. And that patent pretty well shows what Mr. Bourns did, does it not? A. In part, yes.

Q. Now isn't it true also that Mr. Bourns—when did Mr. Bourns leave the testing station?

A. I don't recall the exact date. I think we would have to look at the record to find out. It was about a year after, I will say, it was in the fall of 1946.

Q. The fall of 1946? A. I believe so.

Q. How long before you had come there?

A. A year.

Q. I mean how long before that had you been there? A. A year.

Q. That is, you came in the fall of 1945?

A. Yes, sir.

Q. Now isn't it a fact, Mr. Wilson, that during the time when Mr. Bourns—of Mr. Bourns' employment that you had a micro-torque potentiometer made by the Giannini Company [647] which you

(Testimony of Gardner P. Wilson.)

kept in your desk and brought out on various occasions and ridiculed and asked "How could anybody get \$50 for this junk?" A. No, sir.

Q. You never did that at any time?

A. I don't recall that.

Q. You don't recall having a micro-torque—a Giannini micro-torque?

A. I remember having the micro-torque potentiometer in my drawer.

Q. In your drawer?

A. Yes. And I had many others in the stock room. I remember examining it and was unhappy with many of the features it had and thought we could do better.

The Court: He admits he was unhappy about it.

The Witness: I was unhappy, sir. I don't believe I expressed it in that language.

Q. By Mr. Lewis E. Lyon: You wouldn't deny, however, that you said that—"How could anybody get \$50 for anything like this"?

The Witness: I may have, sir.

Mr. Lewis E. Lyon: That is all.

The Court: All right, any further questions?

Mr. Pruitt: No further questions.

The Court: Mr. Wilson, I want to say something to you. [648] I don't think you have ever been in this court before and I want you to know that nothing that I have said in my discussion with counsel in any way reflects upon you or your competency.

The Witness: I understand that.

The Court: When we are talking about experts

(Testimony of Gardner P. Wilson.)

we are talking about experts in general and not you in particular and the limited function they have in the Federal Courts, so I just trust you will not take anything that I have said as personal because I don't even know you. I have never seen you.

I have a great admiration for the institution from which you are a graduate and the competence of the men who have graduated from that school. They have come before me in various capacities. You know a lay person will come in to the middle of an argument and think that there is some reflection being cast on him, but that is not so.

Have you ever testified in a court before?

The Witness: Only for myself on a parking ticket.

The Court: Then you have had a new experience.

The Witness: I would like to add that the same Dr. McKeown that I spoke of is my teacher and friend so I know from his tales of experiences in the courts that this sort of thing is to be expected and my feelings are not hurt in the least and I thank you for your courtesy.

The Court: All right. [649]

Mr. Pruitt: Call Mr. Pitzer.

EDMUND W. PITZER

called as a witness by the defendants, having been previously sworn, was examined and testified as follows:

Direct Examination

Q. By Mr. Pruitt: Mr. Pitzer, you are em-

(Testimony of Edmund W. Pitzer.)

ployed at the D. B. Millikan Company and were in 1947 when Mr. Bourns came to that organization, were you not? A. I was.

Q. And did you talk to Mr. Bourns on that occasion?

A. Along with Mr. Millikan and Mr. Gobel, yes.

Q. And what was the subject matter of that conversation?

A. Mr. Bourns had a model potentiometer that he showed us.

Q. I will show you Plaintiff's Exhibit 6 and ask you if the model that Mr. Bourns had on that occasion was that or a similar device?

A. I believe it is.

Q. And did Mr. Bourns at that time state the purpose of his visit to the D. B. Millikan Company?

A. I believe he stated that he wanted to have either some prototypes made—in fact I believe it was for prototypes. [650]

Q. Did you have a discussion about what types of prototypes should be made at that time?

A. Do you mean in regard—

Q. The construction.

A. To the construction? I don't believe that it was at that time.

Q. As a result of that meeting did the D. B. Millikan Company receive an order from Mr. Bourns for the production of any potentiometers?

A. Yes, I believe they did.

Q. And what was the order, do you recall?

(Testimony of Edmund W. Pitzer.)

A. Well, I recall one order for 40 units.

Q. Was there a previous order for prototypes?

A. I believe there was.

Q. And was there a discussion with Mr. Bourns at which you were present in which you discussed the constructional details of the prototypes to be built by the D. B. Millikan Company?

A. Yes; along with Mr. Gobel and Mr. Millikan.

Q. And were any changes in the model that Mr. Bourns had with him discussed at that time?

A. Yes. It was suggested by either Mr. Millikan, Mr. Gobel or myself the use of a square shaft.

Q. Were any other suggestions made?

A. And also changes were incorporated in the cover [651] to facilitate ease of manufacture.

Q. And I show you now Plaintiff's Exhibit 4-A and Exhibit 4 and ask you if those two instruments were built by the D. B. Millikan Company while you were employed by the D. B. Millikan Company? A. I believe they were.

Q. And you testified that later 40 additional instruments were produced at the D. B. Millikan Company? A. That is correct.

Q. And how did those instruments compare in structure with the prototypes that are before you?

A. They were considerably longer. The end plates were eliminated and they were—the covers were manufactured of bakelite versus the Lucite here.

Q. Now, who at the D. B. Millikan Company

(Testimony of Edmund W. Pitzer.)
supervised the production of the 40 potentiometers ordered by Mr. Bourns from that company?

A. I did.

Q. And who directed you to supervise that job?

A. Either Mr. Millikan or Mr. Gobel.

Q. And what was your position with the D. B. Millikan Company at that time?

A. I was production engineer.

Q. Mr. Bourns worked at the D. B. Millikan Company during the time that the D. B. Millikan Company was manufacturing [652] these 40 potentiometers?

A. Yes, he did. In fact he was on its pay roll.

* * * * * [653]

(The exhibit referred to was marked Defendants' Exhibit AC, and was received in evidence.) [666]

[See Book of Exhibits.]

* * * * *

MARLAN E. BOURNS

called as a witness by the plaintiff in rebuttal, having been previously sworn, resumed the stand and testified further as follows:

Direct Examination

Q. By Mr. Lewis E. Lyon: Mr. Bourns, you have heretofore testified concerning your employment by the Testing Station, Naval Ordnance Testing Station, and have testified as to the work that you did while so employed. It was testified to yesterday by Mr. Wilson that the work that you did

(Testimony of Marlan E. Bourns.)

was shown by a patent which had been issued to you. I place before you a patent No. 2,510,060, granted June 6, 1950 for pulse time modulation circuits and method, and I will ask you if that is Letters Patent that were granted to you as a result of the work that you did while at Naval Ordnance Testing Station?

Mr. Pruitt: To which we object, your Honor. I see no materiality in the granting of another patent to Mr. Bourns. I think it is new matter that was raised by Mr. Lyon, himself, in yesterday's testimony, and not by the defendants.

Furthermore, it seems to me absolutely immaterial to any [672] issue in this case.

Mr. Lewis E. Lyon: The only purpose of this offer is to show precisely what the witness did, which did not involve in any way the matter of potentiometers, your Honor.

The Court: All right. I don't want to start on new issues.

Mr. Lewis E. Lyon: This is not a new issue, your Honor.

The Court: All right.

The Witness: Yes, sir, that is the patent that was granted me.

Mr. Lewis E. Lyon: I will offer this patent in evidence as plaintiff's exhibit next in order.

Mr. Pruitt: What was the witness's answer?

(The answer was read by the reporter.)

The Court: All right. I think you asked the last witness, Mr. Wilson, that same question.

(Testimony of Marlan E. Bourns.)

Mr. Lewis E. Lyon: I asked him if the work that he did was culminated in a patent, and he said yes. Now, this is the patent that was issued.

The Court: All right. I don't want to go into it to see what it is all about.

Mr. Lewis E. Lyon: I don't want to go into it either.

The Court: All right. Let's all keep our promises.

The Clerk: Is this admitted, your Honor?

The Court: Yes, it may be received. [673]

The Clerk: Plaintiff's Exhibit 45 in evidence.

(The exhibit referred to was marked Plaintiff's Exhibit 45, and was received in evidence.)

Q. By Mr. Lewis E. Lyon: While you were employed at the Naval Ordnance Test Station, to your knowledge, were any potentiometers used by you or anyone else, or did you see any potentiometers?

A. The only ones I saw were conventional radio volume controls, and one Giannini Microtorque, which was referred to yesterday, at the NOTS plant. Then in the installation of the equipment, of the telemetering equipment, at Convair shortly before I left, I did have occasion to see some potentiometers used by Convair, as I already mentioned.

Q. Those were the ones you testified to, operated with a string?

A. Not the one with the string. I saw the one with the vane and the gear train arrangement.

Q. But there were no others?

A. No, sir.

(Testimony of Marlan E. Bourns.)

Q. You did not see any precision potentiometers there at all then?

A. No, sir, I didn't.

Q. And there were none used?

A. Not to the best of my knowledge.

Q. Now, this problem that culminated in this patent, Exhibit 45, did it entail the use of potentiometers?

A. Yes, in making experimental models of this instrument, we used radio volume controls to adjust some of the [675] resistances in the circuit. Then once we determined the resistance value that we wanted, we substituted fixed resistance for that value.

Q. Then you did not use in that problem, the ultimate carrying out of that problem, a variable potentiometer at all?

A. No, sir, I believe not, inasmuch as the entire eight-channel unit was in a cube, about two inches in all directions.

Q. Mr. Bourns, there has been some discussion here which may need clarification with respect to the use of this part number, as the same appears on Exhibit D, for example. That is the part number 8002925. Will you explain what significance that part number has, or how those part numbers are developed?

A. Well, many companies, particularly the large companies, who are engaged in missile work like to identify the various devices which they produce by some numbering system of their own, for the

(Testimony of Marlan E. Bourns.)

sake of convenience of their records and references, rather than referring to assorted names and numbers and designations which the various manufacturers may use, so it is common practice for these companies to request that we in some manner attach a number of that type.

Q. Does that part number, the purchaser's part number on such a part, have any significance whatsoever with the source, or origin, or design, or originality of the part on [676] which the number is placed?

Mr. Pruitt: I will object to that as a leading question.

The Court: The objection is sustained. I think we are going over the same ground here. After all, on the background of the invention, I think we ought to confine ourselves strictly to rebuttal.

Mr. Lewis E. Lyon: This is rebuttal, your Honor. It is with respect to this part number, and if your Honor understands that the part number has no significance other than identification, and that can be agreed upon, there is no need to go into it.

The Court: I am not deciding any facts in advance. I am just remembering the facts in the record relating to this matter. I don't think it is necessary in a law suit that every contention of the other side, no matter how insignificant, be met. What we are interested in is the patent, and some claim, and whether they have violated it, and whether there have been any unfair practices by the defendants arising out of it. That is the simple question here.

(Testimony of Marlan E. Bourns.)

The manner of marking a part is not a part of the invention. The invention is a substantive matter. It isn't just a matter of form, or it isn't a process, but it is a combination of various elements to produce a certain result.

Mr. Lewis E. Lyon: That is all, Mr. Bourns.

The Court: Just a moment. [677]

Cross Examination

Q. By Mr. Pruitt: Mr. Bourns, you say you saw no precision potentiometers in 1946, is that correct?

A. In the course of my employment at NOTS, except as mentioned.

Q. And what exception was that?

A. The unit which I have described previously, and which I saw at Convair in the course of installing telemetering equipment in the Convair missile.

Q. What unit was that? What type of potentiometer was it that was a precision potentiometer?

A. It was a rotary potentiometer; I believe it was a Giannini micro-torque brand.

* * * * *

Q. Isn't it a fact that the first production instrument of the Model 118 was not shipped by you to any customer prior to January 1952?

A. I didn't understand that. Was not shipped to us [678] by any customer, did you say?

Q. Was it shipped by you to any of your customers prior to January 1952?

(Testimony of Marlan E. Bourns.)

A. I am not certain of the first shipping date of the exact instrument that is shown there.

Q. Is it your testimony that you don't know whether or not the instrument was shipped prior to January 1952?

A. I would first need clarification as to the limitation you are putting on the terminology, "the instrument."

Q. The Model 118 instrument. Does that clarify the question?

A. Not necessarily, entirely, inasmuch as we have a Model 116, 117 and 118, which are basically similar, with the exception of one being a single output, one a dual output, and one a triple output; and it is further complicated by the fact that there were various developmental models which were basically the same as this, but varied in minor degrees and may or may not have been identified by those specific model numbers.

Q. All right, Mr. Bourns. When was the first Model 118 sold by Bourns Laboratories?

A. I can't tell you accurately that date at this time.

Q. Do you have records here which would indicate the date of the first sale of that device? [679]

A. We may have.

Mr. Pruitt: I might say at the time of the previous cross examination of this witness I asked the witness to consult his records with respect to this question.

Mr. Lewis E. Lyon: Apparently the first date

(Testimony of Marlan E. Bourns.)

that I have—I will hand the witness an invoice that has been handed me, and apparently it indicates the date of shipment of October or September of 1951 of an instrument shipped to Douglas under that part number, and designated a 118 modified, or 117 modified.

Is that correct?

The Witness: Yes, this appears to refer to a Model 118 modified. It mentions that it is similar to the envelope of Bourns Model 117 currently supplied to Douglas.

Mr. Lewis E. Lyon: Then that does not even indicate the first date of the supplying to Douglas of the 117, does it?

The Witness: No.

Mr. Pruitt: If I might clarify the record. The questions are about the Model 118, Mr. Lyon.

Mr. Lewis E. Lyon: But the witness says the 118 and 117 were the same except one was a dual and one a triple and one a single.

Mr. Pruitt: We will take one instrument at a time.

Q. By Mr. Pruitt: Do I understand you, Mr. Bourns, [680] to say that the purchase order which I hold in my hand indicates the date of the first shipment of the Model 118 to any customer of Bourns Laboratories?

A. I don't actually see a shipping date on it.

Q. In other words, the date the instrument bears is the date of the purchase order, is that correct?

A. Yes, that is one of the dates. It says the re-

(Testimony of Marlan E. Bourns.)

quired delivery was November 9, '51. I don't know whether we shipped it ahead of that or what.

Q. It was after the date of the purchase order which you hold in your hand, was it not?

A. I assume so, if this was the first purchase order, which it has been indicated to be.

Mr. Pruitt: I will offer this as Defendants' next in order.

The Court: It may be received.

The Clerk: Defendants' Exhibit AD in evidence.

(The exhibit referred to was marked Defendants' Exhibit AD, and was received in evidence.)

[See Book of Exhibits.]

Mr. Lewis E. Lyon: You wanted to know when it was first shipped. You have asked it. I am informed that the book records show that that instrument was shipped on invoice No. 7066, dated October 4, 1951 to Bendix.

Mr. Pruitt: And that is the Model 118?

Mr. Al Beck: It is called a 117 modified on the invoice. [681]

Q. By Mr. Pruitt: Mr. Bourns, you have heard the statements of Mr. Lyon and Mr. Beck that a 117 modified was shipped to Bendix on October 4, 1951; do you recall in what respects the Model 117 was modified?

A. The document you showed me indicated that it was a single, rather than a dual, and that is the distinction between the Model 117 and the 118.

(Testimony of Marlan E. Bourns.)

Q. Was that the first Model 117 that was delivered to any customer of Bourns Laboratories?

A. No, sir.

Q. On or about what date was the first Model 117 delivered to a customer?

A. We may have that information, too.

Mr. Lewis E. Lyon: I am informed that the date was September 21, 1951 on invoice No. 7042.

I will give you the information with respect to the 116 at the same time. It may shorten the matter up. That was first sold on invoice No. 7061 on October 1, 1951.

Mr. Pruitt: Thank you, Mr. Lyon.

Q. By Mr. Pruitt: Mr. Bourns, isn't it a fact that during the period of time that Mr. Pitzer was employed by you the Bourns Laboratories did not manufacture a Model 116, 117 or 118?

A. Yes, sir, that is correct. [682]

* * * * *

EDWARD GOEPPINGER, called by the plaintiff in rebuttal, being first sworn, was examined and testified as follows:

* * * * *

Direct Examination

By Mr. Lewis E. Lyon:

Q. How are you employed, Mr. Goeppinger?

A. I am currently employed as salesmanager of Bourns Laboratories Instrument Sales Corporation.

Q. How long have you been employed by Bourns Laboratories? A. Since September '49.

Q. In what capacities? [683]

(Testimony of Edward Goeppinger.)

A. I originally was employed by Bourns Laboratories as design engineer, worked in that capacity for approximately one or two years, and there was a gradual transition to the sales function, contacting customers, making customer proposals, evaluating customer requirements, and that capacity, or I should say that duty has expanded to the capacity of salesmanager in the present organization.

Q. In that capacity do you have charge of the sales records? A. Yes, sir.

Q. All sales records of the organization?

A. I have charge of all sales records, of the sales activities, and have available all accounting records that might have taken place prior to my joining the organization.

Q. During what year did Bourns Laboratories first sell linear motion potentiometers?

A. The linear motion potentiometers had been sold prior to my employment with Bourns Lab.

Q. Do the records show how many there were during the first year of sale?

A. According to the records of the first year of sales, it was somewhere around forty or fifty instruments, for a total gross sale of around two or three thousand dollars.

Q. What year was that sales year?

A. That was, I believe, in 1947.

Q. All right. Now, what were the gross sales in numbers and in dollars of linear motion potentiometers by Bourns Laboratories in the year 1953?

A. In 1953 the total sales ran close to \$300,000.

(Testimony of Edward Goeppinger.)

The individual instrument price had been substantially reduced. The average selling price was under forty—I should say under \$50, between forty and fifty, so that indicates that the [685] total quantity sold was in the neighborhood of six to eight thousand pieces.

Q. What was the number of employees of the Bourns organization in 1947, do you recall?

A. I was not with the organization at that time. I do not know specifically.

Q. The records do not show?

A. Well, I have heard what the gross of the organization was. I know it was just a handful.

Q. How many employees are in the regular employment of the Bourns Laboratories at the present time? A. Approximately 120. [686]

* * * * *

(The document heretofore marked Plaintiff's Exhibit 41, for identification, was received in evidence.) * * * * *

[See Book of Exhibits.]

Cross Examination

Q. You state that in 1947 Bourns Laboratories sold approximately forty to fifty linear motion potentiometers for a total dollar volume of two to three thousand dollars; is that correct?

A. As I best recall, that is correct. * * * * [687]

Q. In 1948 do you know what the sales of linear motion potentiometers by Bourns Laboratories

(Testimony of Edward Goeppinger.)

amounted to, either by number of instruments or by dollar volume?

A. Am I permitted an approximation on this?

The Court: Yes.

Mr. Pruitt: Yes, I just want your best recollection. [688]

The Court: And give it as accurately as you can.

The Witness: We do have records on it, but as I best recall it, it was in the neighborhood of around eight or ten thousand.

Q. By Mr. Pruitt: Dollars?

A. Correct.

Q. Do you know how that dollar volume compares to the sales, the dollar volume of sales of rotary potentiometers in that year?

A. I would say if there were any sales of rotary potentiometers in that year, it was only one or two prototype units that were submitted for evaluation. The prototype units were not considered units that were used in production.

Q. In 1948 did Mr. Bourns sell any potentiometers other than linear motion potentiometers?

A. From what I can observe from the past records, there were other sales of other types of instruments at that time.

Q. And what types of instruments were those?

A. I believe there were designs at that time on pressure units and other types of devices, such as the vane devices.

Q. Do you know how the sales of linear motion

(Testimony of Edward Goeppinger.)

potentiometers compares in that year to the type of all other devices that were sold by Mr. Bourns in that year?

A. I do not have exact figures available. I think they may be available in some of the other records.

Q. Do you know whether or not the sales of all other types of instruments were larger than the sales of linear motion potentiometers?

A. I don't think I could say accurately.

Q. In 1949 can you state whether or not it is true that the total sales dollar-wise of linear motion potentiometers by Mr. Bourns totaled about \$3,000?

A. In 1949?

Q. Yes.

A. You are asking if I did say that?

Q. No, if you know that that is true or not.

A. It sounds like it is reasonably correct. I think it may have been slightly higher than that.

Q. You mean within a thousand dollars or so?

A. I wouldn't pin it down to a thousand dollars.

Q. Now, is it a fact that in that same year, 1949, the sales of other types of instruments by Bourns Laboratories totaled approximately \$60,000?

A. In rough figures, yes.

Q. In 1950, is it a fact that the total sales of linear motion potentiometers by Bourns Laboratories totaled about \$18,000?

A. I would not say whether that is correct or not.

Q. Do you know if it is approximately correct?

A. I do not have exact figures on that, that I

(Testimony of Edward Goeppinger.)

can recall [690] by figures. I can chart the general trend of the general growth. Whether or not some of the large orders were delivered in one year or another is something that was more closely associated with the accounting function rather than the sales function.

Q. In 1950, is it a fact that the total sales by Bourns Laboratories of instruments other than linear motion potentiometers totaled about \$81,000?

A. I believe that is a fair estimate.

Q. Would it be fair to say that in 1949 and 1950 the sales of potentiometers other than linear motion potentiometers by Bourns Laboratories was substantially greater than the sales of linear motion potentiometers during that period?

A. In terms of dollar sales, I would say yes. In terms of potential future sales, I would say no.

Q. Now, at the time of the first sale of the Model 118, the first production model sold to a customer for use, what was the price of that instrument?

A. Are you referring to the modified unit that we sold to Bendix? [691]

* * * * *

HERBERT E. KIDDER

a witness called by the plaintiff, having been previously sworn, was recalled and testified in rebuttal as follows:

Direct Examination

Q. By Mr. Lewis E. Lyon: Mr. Kidder, you are familiar, are you not, and have studied prior pat-

(Testimony of Herbert E. Kidder.)

ents which have been set up in the answer in this case? A. Yes, I am.

Q. Including the patents to Rubinstein, Nelson, Batcheller, Schauer, Campbell, and the others which now formulate Exhibits R-1 to R-11, inclusive, copies of which I now place before you?

A. Yes, I am familiar with them.

Q. Do any of these patents show a potentiometer in [695] which there is found a lid carrying a resistance element and a shorting strip, and in the body of the potentiometer there is a spring contact element or elements mounted to slide in the body of the element upon a bar or shaft?

A. In my opinion there is not.

The Court: What claim are you reading?

Mr. Lewis E. Lyon: I didn't hear your Honor.

The Court: What claim were you giving him?

Mr. Lewis E. Lyon: The only claim of the '981 patent, your Honor.

The Court: That is the only one in suit?

Mr. Lewis E. Lyon: That is the only one in suit.

The Court: All right.

Q. By Mr. Lewis E. Lyon: You are familiar with the Bourns linear motion potentiometer, are you not? A. Yes, I am.

Q. Do those Bourns linear motion potentiometers include a lid having a variable resistance element and a shorting strip mounted in the lid?

Mr. Pruitt: To which we object, your Honor, on the ground that this entire line of questioning is improper rebuttal. I don't believe there was any

(Testimony of Herbert E. Kidder.)

evidence in the defendants' main case to which this is proper rebuttal evidence.

The Court: The prior question was proper. I can't [696] see the propriety in this one, unless you seek to eliminate possible anticipation by yourself, which of course does arise at times.

Mr. Lewis E. Lyon: The only reason for this question, your Honor, is to establish that the linear motion potentiometers manufactured and sold by the Bourns Laboratories do include in all instances the definition of the patent invention to bring it within the fact that those structures, those linear motion potentiometers, which have had such wide commercial success, are the structures of the patent in suit, and defined by the claim.

The Court: Read the question.

(The question was read by the reporter.)

Q. By Mr. Lewis E. Lyon: (Continuing) And a slide element in the body carrying a pressure contact element, and which slide element is mounted to move upon a shaft or bar mounted in the body of the potentiometer.

Mr. Pruitt: The same objection, your Honor, and upon the further ground that it is immaterial.

The Court: I will overrule the objection. You may answer.

The Witness: Now, I have to see how this question is worded.

The Court: All right. Start over again, Mr. Goldstein.

(Testimony of Herbert E. Kidder.)

(The question referred to was read by the reporter as follows: [697]

"Q. Do those Bourns linear motion potentiometers include a lid having a variable resistance element and a shorting strip mounted in the lid, and a slide element in the body carrying a pressure contact element, and which slide element is mounted to move upon a shaft or bar mounted in the body of the potentiometer?"")

The Witness: Yes, they do.

The Court: All right.

Mr. Lewis E. Lyon: That is all.

Cross Examination

Q. By Mr. Pruitt: Mr. Kidder, have you examined the file wrapper of the '980 patent?

A. Yes, I have.

Q. Have you read the original claim 13 included in that file wrapper? A. Yes.

Q. Do you know generally what that provides?

A. It is generally similar to the allowed claim in '981, but differs in certain material respects.

Q. And in what respects does it differ from the claim of '981 patent as ultimately allowed?

Mr. Lewis E. Lyon: I believe, your Honor, that is a matter of simple comparison between the claim—— [698]

The Court: I don't know why this is proper for him to do. I have the file wrapper, and it shows what they did. They allowed it right from the beginning and merely objected to the inadequacy of

(Testimony of Herbert E. Kidder.)

drawings. In fact, it is one of the shortest file wrappers I have ever seen.

Mr. Pruitt: I am speaking of the '980 file wrapper in which the original—

The Court: I know. That one was a short one, too. And this division came out of that one.

Mr. Pruitt: Your Honor, the claim of the '981 patent was stated by the applicant to be substantially the same as claim 15 of the original application.

The Court: He didn't put it that way in his application. He merely said it is a division. I will tell you what his wording is. In his letter of transmittal he says—just a minute.

"It is substantially a copy of claim 15 of the parent case, drawn to the non-elected species." I don't know what that phrase means. What does it mean?

Mr. Pruitt: It means a different invention, different species of invention than that covered in the parent claim.

The Court: What does that non-elected mean? That is a new phrase.

Mr. Lewis E. Lyon: In the file wrapper of the original case there was more than one form of structure shown. The [699] Patent Office required a division. Now, the words "non-elected" mean that in the original case this form of linear motion potentiometer was not elected to be prosecuted in the original application, but was elected to be filed in a divisional application. The words "non-elected"

(Testimony of Herbert E. Kidder.)

refer to the election made with respect to the '980 file wrapper, where that form of structure was taken out of that application and reserved for the divisional application.

The Court: I see. All right.

Mr. Lewis E. Lyon: Isn't that right, Mr. Kidder?

The Witness: That's right.

The Court: It is a new phrase. In 19 years I haven't run across it before, or if I have, I have forgotten it.

Mr. Pruitt: Your Honor, if I may point out in the '980—

The Court: Let's not argue about it. Let's do the arguing later on.

What is pending before the court?

Mr. Pruitt: I asked a question concerning the difference between an original claim in the '980 patent and the claim of the '981 patent.

The Court: In view of my own inquiry I think I will let you ask the question. All right, you may answer.

Mr. Lewis E. Lyon: The only question, your Honor, is to compare the physical written elements in one with the other, and both of them are in evidence. [700]

The Court: He can assist us. Go ahead.

The Witness: I really would have to have a copy of the claim 13 to compare—

The Court: Claim 15.

The Witness: He is now asking about 13.

Mr. Pruitt: There were four claims in the orig-

(Testimony of Herbert E. Kidder.)

inal application relating to the linear motion potentiometer, three of those were abandoned by the applicant, and they relied on a claim substantially the same as a claim 15 in their divisional application.

The Court: Now you are trying to compare it with one that they abandoned, is that correct?

Mr. Pruitt: That is correct, your Honor.

Mr. Lewis E. Lyon: That is just argument, your Honor.

The Court: Let's not argue it. Let's let the witness answer the question, please.

The Witness: The chief distinctions are that the claim 13 has no reference to a post mounted on the shaft to which the contact plate is attached, nor does the conductor strip appear in claim 13.

Q. By Mr. Pruitt: Did you take that difference into consideration in arriving at your opinion as to whether or not the Bourns instruments are covered by the single claim of the '981 patent?

A. Yes, that was taken into consideration. [701]

Q. Are you familiar with claim 14 of the parent application?

A. I have read it. I know that there are differences, but the specific differences I would like to look at.

The Court: All right.

Q. By Mr. Pruitt: Please do that, Mr. Kidder.

A. Claim 14 omits the post and describes the contact plate as being mounted on the shaft. Also, of course, includes the whereby clause that was ob-

(Testimony of Herbert E. Kidder.)

jected to by the Patent Office, the last clause—

The Court: The functional clause?

The Witness: The functional clause of the claim.

The Court: Almost like the famous "which" clause in the Bricker Amendment.

Q. By Mr. Pruitt: Are those the only differences between the original claim 14 and the single claim of the '981 patent as ultimately allowed, Mr. Kidder?

Mr. Lewis E. Lyon: Your Honor, I will object to that. That is a matter of simple comparison as to whether there is any further difference.

The Court: That is all right. He may sum it up for us.

The Witness: I would say that is the only material difference. There are a number of other differences in the general organization of the material and the way it is set up [702] in the claims.

Q. Did you take those differences into account in expressing the opinion that you expressed a few moments ago? A. Yes, I did.

Q. Are you familiar with claim 15 of the original parent application? A. Yes, I am.

Q. Do you know in what manner that differs, if any, from the claim as ultimately allowed in the '981 patent? A. Yes.

Q. In what manner does it differ?

Mr. Pruitt: Your Honor, I might point out that these portions are set forth in the trial memorandum on page 13.

(Testimony of Herbert E. Kidder.)

The Court: I know, but I prefer to go by the entire file wrapper.

I think the Examiner set forth the distinction and evidently accepted the claim, because that is one of the few instances that I know of where it was allowed on the first shot. All that he asked for was a better drawing.

Mr. Pruitt: Your Honor, we are going to argue the matter later, but the file wrapper shows that similar claims were previously rejected by the Patent Office. [703]

The Court: The old claims, that is right.

Mr. Lewis E. Lyon: They weren't claims in this application. There is no file wrapper estoppel that follows from that; none whatsoever.

The Court: No. They can see the light, gentlemen, even if it takes them three years to do it, and they eventually come out with something. I know what the file wrappers usually show. They start out with something, and talk back and forth, and the lawyers argue, everybody argues, and, finally, they come out with something and they say, "This is allowed" and you end up with about half the claims.

There is also one little characteristic thing in that one file wrapper. You see, I have a sort of proofreader's eye, and sometimes little things saute aux yeux, as the French say, sort of jump out at you. They said, "Please limit your claims to not more than ten." In other words, they do not like

(Testimony of Herbert E. Kidder.)

multiple claims. So there may be that motivation behind the rejection, that they do not like so many claims. So, finally, when they limited it to seven, they pull this one out, and they say, "We will give it to you."

All right. Go ahead.

The Witness: Among the differences between claim 15 and the allowed claim of '981 is that claim 15 stated that the post extends out of the groove and serves to prevent [704] rotation of the shaft, and is estopped on the limits of shaft reciprocation.

Also, the elongate strip is not described as an electrically conductive elongate strip, which was objected to by the examiner. And the "whereby" clause was objected to at the end of the claim 15, and that was omitted from the claims of '981.

The Court: So that the single claim allowed has fewer elements?

The Witness: It has fewer elements. It is slightly shorter, but contains substantially the same material.

Q. By Mr. Pruitt: You say it was substantially the same as far as the structure described therein in concerned?

A. Except for the differences that I have described, namely, that the post extends out of the groove and serves to prevent rotation of the shaft, and to limit the shaft reciprocation.

Q. Did you take those considerations into ac-

(Testimony of Herbert E. Kidder.)

count in expressing the opinion you testified to a few moments ago? A. Yes, I did. [705]

* * * * *

[Endorsed]: Filed November 8, 1954.

[Title of District Court and Cause.]

EXTRACT FROM HEARING ON MOTION TO STAY OR MODIFY INJUNCTION

Los Angeles, Calif., Monday, Nov. 8, 1954

* * * * *

The Court: As I understand that section, we are not ousted from jurisdiction to determine the validity of patents. The Court of Claims is not authorized to pass upon the validity of patents. The section merely says that for damages to be recovered they have to go to the Court of Claims. But that does not prevent me from enjoining them from selling to the Government if, as I found, it is a deliberate infringement. There was no attempt made not to. Your only contention was that hazy contention that it was in the prior art. The man went out deliberately and took it. He was not even skilled in the field. He was just a mechanic, and not an engineer.

I don't know that that section ousted jurisdiction in the courts of the United States to determine patents. Of course, it is true, and I have so held myself, that even when you issue a mandatory in-

junction, you have the right to stay its effect in order not to prevent a person having the benefit of an appeal. But that is done only upon filing a substantial supersedeas bond. A provision such as you demand is really an encouragement. He could go out and say, "Look, we have got authorization to sell all we want to," despite the fact that the judgment would be violated. That would make a mockery of my judgment.

Mr. Warner: That is not intended, your Honor, and none would result.

The Court: But you have gone out and solicited, and you have not got a piece of paper here in showing any authorization by the Government, or that anyone authorized by the Government has stated that they are so willing to buy yours instead of the other that they authorize anyone to prefer that one over the other. After all, you are an infringer.

Mr. Warner: I understand, your Honor, but, if it please the court, that evidence was offered at the trial, and was refused to be admitted.

The Court: I wasn't interested then, and I am not interested in it now.

* * * * *

I am old-fashioned. I believe that a patent is still a good right, and I believe that this was a deliberate infringement by one who could not even claim a skill in the art, because he went out and deliberately took something from his former employer. He surrounded himself, it is true, with men skillful enough to help. He was not even an engi-

neer. His experience, he said at the trial, had been obtained in the Navy.

And here is a man who had an invention, which I found was infringed, and I am not going to do aught unless there be a substantial supersedeas bond.

I am not going to put a clause in that injunction, because that would deliberately allow them to go out and do that very thing. If at all, I would tell them not to solicit. I would put in a provision not to solicit or sell. Otherwise they could say, "Boys, we have a cinch. We have got a bond up for \$2,000, and we can sell \$100,000 worth of goods to the United States Government, and then let them go and sue us in the Court of Claims." That is not the way the process of the court should be used. I have been too long at this game. It is true that there are certain things you cannot do, but you can prevent a man from doing certain things that would compel him to go to the Court of Claims, and that has always been the method used in courts of equity. And this is a court of equity now. I would not give you a thing like that. It would just be an invitation to go out and solicit unlimitedly, and any contractor who would be shown a provision of that character would say, "Why, we do not run any risk." I am not going to do that and nullify the judgment of this court.

You are not getting a supersedeas from me unless there is a hearing, in which I am told the total amount in money of all sales, and I will make it cover the whole amount, so that they won't have

to go to the Court of Claims. It is true I cannot make it to cover damages in this court, but I can use the injunctive power to prevent them from going out and increasing the damage, such as a court of equity has always done, and I have illustrated how we do it in divorce cases, where, while you cannot control property outside of the State, you can control the man who owns the property and use the process of the court to tell him to deliver a deed conveying the property, and no court of the United States has ever repealed that.

In fact, I have just completed a case for the Court of Appeals, involving a fight over an estate, and I ran across those cases, and I say in the footnotes that while it is true the court has no jurisdiction to control property outside of the State, it can through orders issued to the person before it compel conveyance even of property outside of the State. So having given the plaintiff the benefit of the judgment, I am not going to do anything to nullify it. If you want a supersedeas bond, you will have to have a bond to cover all future sales, including the Government, and an agreement that that bond be made to cover any future damages as to those. In other words, I will make you waive the benefit of that section, and I can do it. Otherwise, you can go to the Court of Appeals. I have just come from there, and you can ask them to fix the supersedeas bond.

* * * * *

[Endorsed]: Filed November 29, 1954.

[Endorsed]: No. 14578. United States Court of Appeals for the Ninth Circuit. Edcliff Instruments, a corporation, Edmund W. Pitzer and Clifford Dillon, Appellants, vs. Marlan E. Bourns, doing business as Bourns Laboratories, Appellee. Transcript of Record. Appeal from the United States District Court for the Southern District of California, Central Division.

Filed: November 13, 1954.

/s/ PAUL P. O'BRIEN,
Clerk of the United States Court of Appeals for
the Ninth Circuit.

In the United States Court of Appeals
for the Ninth Circuit

No. 14578

EDCLIFF INSTRUMENTS, EDMUND W.
PITZER, and CLIFFORD DILLON,
Defendants and Appellants,

vs.

MARLAN E. BOURNS,
Plaintiff and Appellee.

NOTICE OF MOTION FOR AN ORDER TO
SUSPEND INJUNCTION PENDING DE-
TERMINATION OF APPEAL

To Marlan E. Bourns, Plaintiff-Appellee, and to
Messrs. Lyon & Lyon, his Attorneys:

Please Take Notice that on Monday, November

29, 1954, at the hour of 10:00 o'clock a.m., or as soon thereafter as counsel can be heard, in the courtroom of the United States Court of Appeals for the Ninth Circuit, in the United States Post Office and Court House Building, Spring and Temple Streets, Los Angeles, California, the appellants, Edcliff Instruments, a corporation, Clifford Dillon, and Edmund W. Pitzer, will move the above entitled court for an order to suspend, pending the disposition of the appeal herein, the injunction issued herein by the United States District Court for the Southern District of California, Central Division, upon the grounds (1) that said District Court had no jurisdiction to issue said injunction by reason of the provisions of Section 1498 of Title 28 of the U. S. Code; (2) that said District Court erred in excluding evidence that the purchase of devices from appellants by contractors and subcontractors of the United States was with the authorization and consent of the United States; (3) that the enforcement of said injunction, pending the appeal herein, would cause appellants substantial, immediate, and irreparable injury, whereas, appellee is adequately secured, pending the instant appeal, without the necessity of said injunction; and (4) that the enforcement of said injunction would immediately deprive the United States of its source of supply of vital defense materials and would thereby nullify the protection afforded the United States by said Section 1498 of Title 28 of the U. S. Code.

Said motion will be based upon Rule 62(g) of

the Federal Rules of Civil Procedure, the Memorandum of Reasons and Points and Authorities, and the affidavits of J. E. Coates, Walter J. Jason, Leonard Comegys, Anton Toy, Jr., and Edmund W. Pitzer, filed concurrently herewith; the affidavits of J. E. Coates, Leonard Comegys, and Walter J. Jason, filed below on September 3, 1954 (R. pp. 115, 132, 134); the affidavits of Raymond E. Bossarte, Leonard Comegys, Ed Deardorff, Clifford Dillon, Clyde V. Grant, Jr., Marion J. Kruzie, Frederick E. MacArthur, Jr., Edmund W. Pitzer, and John C. Werner, each filed below on January 15, 1954 (R. pp. 59, 61, 64, 66, 73, 75, 77, 80, 86, 88), and upon all the evidence, papers, and records on file herein.

Dated: November 19, 1954.

GIBSON, DUNN & CRUTCHER,
SAMUEL O. PRUITT, JR.,
F. DANIEL FROST III.,
GLENN WARNER,
/s/ By SAMUEL O. PRUITT, JR.,
Attorneys for Defendants and
Appellants

[Endorsed]: Filed November 19, 1954. Paul P.
O'Brien, Clerk.

[Title of U. S. Court of Appeals and Cause.]

AFFIDAVITS OF WALTER J. JASON, J. E.
COATES, LEONARD COMEGYS, ANTON
TOY, JR., AND EDMUND W. PITZER IN
SUPPORT OF APPELLANTS MOTION TO
SUSPEND INJUNCTION PENDING DE-
TERMINATION ON APPEAL

AFFIDAVIT OF WALTER J. JASON

State of California,
County of Los Angeles—ss.

Walter J. Jason, being first duly sworn deposes
and says:

That he is Patent Director for Convair (formerly
Consolidated Vultee Aircraft Corporation), San
Diego, California, and in the normal and ordinary
course of his duties he has become familiar with
the contents of the records and files of that com-
pany relating to the purchase by Convair of po-
tentometers from Edcliff Instruments, a corpora-
tion. Said files reveal:

(1) That all potentiometers heretofore purchased
by Convair from Edcliff Instruments have been
purchased under and pursuant to one or more of
United States Government contracts NORD-F-
1492, NORD-11809, NORD-11297, NORD-10706 and
NORD-13571; and that all potentiometers to be
purchased in the future by Convair from Edcliff
Instruments are planned for purchase under and
pursuant to one or more of said contracts, and all
of said potentiometers will, in any event, be pur-

chased under and pursuant to United States Government contracts which each contain an authorization and consent clause;

(2) That each of said contracts above identified contains the following authorization and consent clause, it being noted that in the authorization and consent clause of each of contract Nos. NORD-11809 and NORD-13571 the word "necessarily" is omitted from paragraph [ii] thereof:

"Authorization and Consent: The Government hereby gives its authorization and consent (without prejudice to its rights of indemnification, if such rights are provided for in this contract) for all use and manufacture, in the performance of this contract or any part hereof or any amendment hereto or any subcontract hereunder (including any lower-tier subcontract), of any patented invention [i] embodied in the structure or composition of any article the delivery of which is accepted by the Government under this contract, or [ii] utilized in the machinery, tools or methods the use of which necessarily results from compliance by the Contractor or the using subcontractor with (a) specifications or written provisions now or hereafter forming a part of this contract, or (b) specific written instructions given by the Contracting Officer directing the manner of performance."

(3) That all said potentiometers have been or are to be resold to and paid for by the United States Government, and

(4) That all of said potentiometers have either been incorporated or will be incorporated by Con-

vair into devices which have been or will be delivered to the United States, or have been or will be used by Convair for research and development purposes directly in connection with United States Government classified projects.

As more particularly stated in the affidavit of affiant dated August 26, 1954, the United States, represented by the Bureau of Ordnance, Department of the Navy, has specifically authorized and consented to the purchase by Convair of said potentiometers from said Edcliff Instruments.

On November 12, 1954, affiant notified the Chief, Bureau of Ordnance, Department of the Navy, of the Judgment of Infringement entered in the above entitled action and requested a reaffirmation of said authorization and consent to the past, present and future purchases of potentiometers from Edcliff Instruments. In reply to said request, affiant received a written communication from G. D. O'Brien, Patent Counsel, Bureau of Ordnance, Department of the Navy, dated November 16, 1954, which reaffirmed said authorization and consent. Attached hereto and designated Exhibit "A" is a full, true and correct copy of said communication.

/s/ WALTER J. JASON

Subscribed and sworn to before me this 18th day of November, 1954.

EDYTHE G. BEATY,
Notary Public in and for said
County and State

EXHIBIT 'A"

Department of the Navy, Bureau of Ordnance
Washington 25, D. C.

In reply refer to Ref: O'B:pjc A13-1 (Copy)

Mr. Walter J. Jason, Patent Director 16 Nov 1954
Consolidated Vultee Aircraft Corp.
3165 Pacific Highway, San Diego, California

My dear Mr. Jason:

For the purpose of the United States Code Title 28 Section 1498 as amended, the Government of the United States as represented by the Department of the Navy, Bureau of Ordnance, hereby reaffirms the authorization and consent for the manufacture and sale by Edcliff Instruments of linear potentiometers to Consolidated Vultee Aircraft Corporation as previously granted under the following current United States Government contracts: NOrd-F-1492: NOrd-11,809; NOrd-11,297 and NOrd-10,706, and NOrd-13,579 [sic NOrd-13,571].

The provision of the United States Judicial Code noted above states that the patent owner's remedy for the use or manufacture by or for the United States (including a prime Contractor or any lower tier subcontractor of the United States) of any patented invention shall be by way of action against the United States in the Court of Claims for the recovery of his reasonable and entire compensation. Any injunction arising out of the present action brought by Bourns for infringement of U. S. patent No. 2,515,981 by Edcliff Instruments, restraining

the sale by Edcliff of potentiometers held to be infringing valid claims of this patent should exclude sales directly or indirectly to the United States Government or its contractors to be in compliance with the provisions of the above-cited Title and Section of the United States Code.

Accordingly, the purchase by Consolidated Vultee Aircraft Corporation for the use of the United States Government under the above-designated contracts of potentiometers from Edcliff Instruments could be held an infringement of the Bourns patent only by appropriate proceedings in the U. S. Court of Claims. If it were otherwise, the liability of the United States Government could be adjudicated on proceedings in the Federal District Courts, which is contrary to the intent of Congress.

Sincerely yours,

/s/ G. D. O'BRIEN,

Patent Counsel for the Bureau; by direction of the
Chief of Bureau.

AFFIDAVIT OF J. E. COATES

State of California,
County of Los Angeles—ss.

J. E. Coates, being first duly sworn deposes and says:

That he is Chief Patent Counsel for Douglas Aircraft Company, Inc., Santa Monica, California, and that in the normal and ordinary course of his duties he has become familiar with and knows the contents of the records and files of that company relating to

the purchase by Douglas Aircraft Company, Inc. of linear motion potentiometers from Edcliff Instruments.

Said files reveal that all past, present and future purchases of linear motion potentiometers by Douglas Aircraft Company, Inc. from Edcliff Instruments and that all linear motion potentiometers manufactured in the past, present or future by Edcliff Instruments and purchased, or to be purchased by Douglas Aircraft Company, Inc. from Bendix Aviation Corporation, have been or will be purchased under and pursuant to certain United States Government contracts issued by the Ordnance Corps of the Department of the Army and by the Bureau of Aeronautics, Department of the Navy.

Said files further reveal that all of said linear motion potentiometers have been or will be paid for by the United States Government under and pursuant to said Government contracts, and either have been or will be incorporated by Douglas Aircraft Company, Inc. into devices which have been or will be delivered to the United States or have been or will be used by Douglas Aircraft Company, Inc. for research and development purposes directly connected with United States Government projects, all or provided for in said Government contracts.

As stated in the affidavit of affiant dated August 30, 1954 (filed herein on September 3, 1954), the United States has heretofore expressly authorized and consented to the purchase of all of said linear motion potentiometers from Edcliff Instruments

and Bendix Aviation Corporation by Douglas Aircraft Company, Inc.

Furthermore, on November 11, 1954, affiant notified the Chief of Ordnance, Ordnance Corps, Department of the Army and the Patent Counsel, Bureau of Aeronautics, Department of the Navy of the Judgment of Infringement entered by the United States District Court in the above entitled action and requested a reaffirmation of said authorization and consent to the purchase by Douglas Aircraft Company, Inc. of linear motion potentiometers from Edcliff Instruments and from Bendix Aviation Corporation.

Affiant received a written communication in response to said request from J. H. Church, Assistant General Counsel, Office of Chief of Ordnance, Department of the Army, dated November 16, 1954, which reaffirmed said authorization and consent and which stated in addition that:

"Under the Act of June 25, 1948 (28 U.S. Code 1498, as amended) any suit for infringement of a patent by a contractor or by any subcontractor in the performance of a Government contract must be brought against the Government in the Court of Claims and not against the contractor if the Government has given its authorization or consent to the manufacture or use of the patented invention."

On November 17, 1954, affiant received a written communication in response to said request, from F. J. Schmitt, Patent Counsel, Bureau of Aero-

nautics, Department of the Navy, which reaffirmed said authorization and consent.

/s/ J. E. COATES

Subscribed and sworn to before me this 17th day of November, 1954.

[Seal]

CLARA J. KESLER,
Notary Public in and for said
County and State

AFFIDAVIT OF LEONARD COMEGYS

State of California,
County of Los Angeles—ss.

Leonard Comegys, being first duly sworn deposes and says:

That he is Divisional Counsel for Bendix Aviation Corporation, Pacific Division, Plant No. 1 at North Hollywood, California, and that in the normal and ordinary course of his duties he has become familiar with and knows the contents of the records and files of that corporation relating to the purchase by it of potentiometers from Edcliff Instruments. Said files reveal that all past, present and future purchases of potentiometers from Edcliff Instruments by Bendix Aviation Corporation, Pacific Division, have been and will be purchased by said corporation in its capacity as subcontractor to Douglas Aircraft Company, Inc. and under and pursuant to United States Government contracts. Said files further reveal that all of said poten-

tiometers have been or will be delivered to Douglas Aircraft Company, Inc. for ultimate delivery to the United States Government or for incorporation into devices manufactured for the United States Government and used by Douglas Aircraft Company, Inc. for research and development purposes directly in connection with United States Government classified projects.

/s/ LEONARD COMEGYS

Subscribed and sworn to before me this 17th day of November, 1954.

[Seal]

ELENORE E. RICHARDSON,
Notary Public in and for said
County and State

AFFIDAVIT OF ANTON TOY, JR.

State of California,
County of—ss.

Anton Toy, Jr., being first duly sworn deposes and says:

That he is Legal Staff Assistant in the Material Department, Convair, Division of General Dynamics Corporation (Pomona), and that he knows of his own knowledge the truth of the following statements set forth below:

1. Convair, A Division of General Dynamics Corporation (Pomona) operates the United States-owned Naval Reserve Ordnance Plant in the re-

search, development, and production of classified missiles for the United States.

2. That Convair is the prime contractor under United States contract NOrd 11297 and is producing classified missiles for the United States under said contract.

3. That potentiometers are being purchased by Convair from Edcliff Instruments and said potentiometers are being used in the manufacture of said missiles and are vital components thereof.

4. That at this time no other potentiometer except those purchased from Edcliff Instruments has been approved to meet the technical requirements of these instruments although other sources have been and are being sought.

5. That no other potentiometer except those purchased from Edcliff Instruments could reasonably be expected to be produced, tested, and manufactured in quantities required for Convair missile production in less than several months from this date.

6. That in the event Edcliff Instruments is prevented from manufacturing and/or selling said potentiometers, the production of missiles by Convair would be severely curtailed or entirely interrupted for at least several months, thereby making it impossible to deliver missiles to the United States as required under present commitments, and therefore it is most urgent that Edcliff Instruments continue to supply said potentiometers to Convair.

/s/ ANTON TOY, JR.

Subscribed and sworn to before me this 17th day of November, 1954.

[Seal]

MARGARET D. DALEY,
Notary Public in and for said
County and State

AFFIDAVIT OF EDMUND W. PITZER

State of California,
County of Los Angeles—ss.

Edmund W. Pitzer, being first duly sworn deposes and says:

That he is Vice President of Edcliff Instruments, a corporation, and that he knows of his own knowledge the truth of the following statements set forth below:

1. As of November 10, 1954, the gross sales price of all unfilled purchase orders in the files of Edcliff Instruments for linear motion potentiometers was \$129,819.12. No additional purchase orders for linear motion potentiometers have been received since said date.

2. Unfilled purchase orders in the files of Edcliff Instruments on said date from Convair, Douglas Aircraft Company, Inc. and Bendix Aviation Corporation issued under and pursuant to United States Government contracts call for the delivery of linear motion potentiometers having a gross sales price of \$124,319.12.

3. Unfilled purchase orders in the files of Edcliff Instruments on said date from purchasers for po-

tentiometers presumably to be devoted to civilian use and not known to be related to United States Government contracts call for the delivery of linear motion potentiometers having a gross sales price of \$5,500.00.

4. Edcliff Instruments, during the pendency of the appeal herein, will not manufacture, sell or deliver any linear motion potentiometers held by the trial court to infringe appellee's patent, under any purchase orders received on and after the date hereof, excepting only those sold and delivered to agencies of the United States Government under and pursuant to United States Government contracts.

/s/ EDMUND W. PITZER

Subscribed and sworn to before me this 18th day of November, 1954.

[Seal]

FRANCES G. ZIEBACH,
Notary Public in and for said
County and State

[Endorsed]: Filed November 19, 1954. Paul P.
O'Brien, Clerk.

[Title of U. S. Court of Appeals and Cause.]

APPLICATION FOR PERMISSION TO FILE
TYPEWRITTEN BRIEF AMICUS CURIAE
BY THE UNITED STATES OF AMERICA
IN SUPPORT OF MOTION OF APPEL-
LANTS TO SUSPEND INJUNCTION PEND-
ING APPEAL; AFFIDAVIT

Comes Now the United States of America by and through its attorneys, Laughlin E. Waters, United States Attorney, Max F. Deutz and Richard M. Darby, Assistant United States Attorneys, and herewith apply for permission to file a typewritten brief amicus curiae in the above-entitled appeal in support of Motion of Appellants to Suspend Injunction Pending Determination on Appeal under the provisions of Rule 18-9(c) of the Rules of the United States Court of Appeals for the Ninth Circuit, on the questions relating to the interest of the Government in the continued supply of devices held by the court below to infringe appellee's patent and in the construction and application of Section 1498 of Title 28, United States Code.

Said application is based upon the affidavit of Richard M. Darby, Assistant United States Attorney, attached hereto, and upon the grounds therein stated.

Respectfully submitted,

LAUGHLIN E. WATERS,
United States Attorney

MAX F. DEUTZ,

Assistant U. S. Attorney, Chief,
Civil Division

/s/ RICHARD M. DARBY,

Assistant U. S. Attorney
Attorneys for the United States of
America

AFFIDAVIT

United States of America,
Southern District of California—ss.

Richard M. Darby, being duly sworn deposes and says:

That he is an Assistant United States Attorney for the Southern District of California; Los Angeles, California; and makes this affidavit on behalf of the application of the United States of America, for permission to file a Brief Amicus Curiae in the above-entitled matter on the questions relating to the continued supply of devices held by the Court below to infringe appellee's patent and the interpretation and construction of Section 1498 of Title 28, United States Code.

The action in the District Court was a patent infringement case brought by appellee against appellant.

That both appellant and appellee are suppliers to contractors and subcontractors to the United States of America of certain devices described as potentiometers. That the United States had authorized and consented to the purchase by its contractors and subcontractors from appellants herein of devices

held by the Court below to infringe the appellee's patent. That the national interest of the United States required that appellants continue to be permitted to supply said devices to the United States, its contractors and subcontractors.

That the functions of the United States are therefore affected by any matters relating to the issuance of an injunction by the Court below and therefore has a real interest in presenting to this Court a Brief Amicus Curiae on any questions relating to interest of the Government in the continued supply of devices held by the Court below to infringe on the appellee's patent in the construction and application of Section 1498 of Title 28, United States Code.

That the United States Attorney for the Southern District of California was not advised of the status of the action in the Court below until November 17, 1954, and therefore made no appearance in the Court below.

/s/ RICHARD M. DARBY

Subscribed and sworn to before me this 26th day of November, 1954.

[Seal] EDMUND L. SMITH, Clerk
United States District Court, Southern District of California.

By L. CUNLIFFE, Deputy Clerk
Affidavit of Service by Mail attached.

[Endorsed]: Filed November 29, 1954. Paul P. O'Brien, Clerk.

[Title of U. S. Court of Appeals and Cause.]

BRIEF AMICUS CURIAE OF THE UNITED STATES OF AMERICA IN SUPPORT OF APPELLANTS' MOTION TO SUSPEND INJUNCTION PENDING DETERMINATION OF APPEAL

Statement of Government Interest

The clerk of the court below has issued a Writ of Injunction in furtherance of the trial court's interlocutory judgment of valid patent and patent infringement, enjoining appellants from selling or attempting to sell any of the devices held by the court to infringe appellee's patent. Substantially all of the past and contemplated future sales of the infringing devices by appellants have been and are to the United States and to its contractors or subcontractors with the authorization and consent of the United States.

Section 1498, of Title 28 of the United States Code provides in pertinent part:

“§ 1498. Patent cases

Whenever an invention described in and covered by a patent of the United States is used or manufactured by or for the United States without license of the owner thereof or lawful right to use or manufacture the same, the owner's remedy shall be by action against the United States in the Court of Claims for the recovery of his reasonable and entire compensation for such use and manufacture.

For the purposes of this section, the use or manufacture of an invention described in and covered by a patent of the United States by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government, shall be construed as use or manufacture for the United States."

* * * * *

It is the contention of the Government that said section prohibits the District Court from granting appellee any relief whatever, either by injunction or otherwise with respect to such sales. Unless the injunction is suspended pending the appeal herein the whole purpose of Section 1498 to assure the Government of an uninterrupted supply of vital materials would be defeated.

In order to forestall the imminent possibility of service of the Writ of Injunction issued on the court below and the grave danger that would result to the national interest should there be an interruption in the supply of the infringing device now being supplied by the appellants, the United States Attorney for the Southern District of California has been instructed by the Attorney General of the United States to appear in this court as amicus curiae in Support of Appellant's Motion to Suspend Injunction Pending Determination of the Appeal.

Argument

Appellants and appellee manufacture a device known as a linear motion potentiometer. Substanti-

ally all of said devices produced by appellants are sold either to the Government directly or to its contractors and subcontractors. The potentiometers are a vital component of guided missiles produced as a part of the defense program.

The trial court found that appellants' device infringed upon appellee's United States Patent No. 2,515,981. An interlocutory judgment has been issued, restraining appellants from "using, or causing to be used, or offering, or threatening to use, or selling or offering for sale, or threatening to sell or contribute to the use of the combination patented in and by said Letters Patent No. 2,515,981."

In the event of an interruption in the supply of potentiometers by appellants, there will be a delay in the defense program of the Government.

Section 1498 of Title 28, United States Code is clear. It provides that the patentee's sole remedy for an alleged infringement of his patent arising out of the manufacture and sale of a device to the United States or to a contractor or subcontractor thereof shall be by an action against the United States in the Court of Claims. The courts have uniformly and without deviation held this remedy to be exclusive.

Accordingly, in order to insure the uninterrupted supply of vital components in the national interest, and in light of the obvious and adequate legal remedy of appellees under the provisions of Section 1498, Title 28, of the United States Code, it is submitted that the injunction issued by the court below insofar as it applied to devices used or manufac-

tured by or for the United States, its contractors, subcontractors, or any person, firm or corporation for the Government and with the authorization or consent of the Government should be suspended on the instant motion of appellants pending determination of their appeal herein.

Respectfully submitted,

LAUGHLIN E. WATERS,

United States Attorney

MAX F. DEUTZ,

Assistant U. S. Attorney, Chief,

Civil Division

/s/ RICHARD M. DARBY,

Assistant U. S. Attorney

Amicus Curiae

Affidavit of Service by Mail attached.

[Endorsed]: Filed November 29, 1954. Paul P. O'Brien, Clerk.

[Title of U. S. Court of Appeals and Cause.]

ORDER

Motion for an Order to Suspend Injunction
Pending Determination of Appeal

Before: Stephens, and Chambers, Circuit Judges,
and McLaughlin, District Judge.

On the 29th day of November, 1954, plaintiff-appellee's motion to this court for order to suspend

injunction pending determination of appeal was submitted to this court for decision;

And, this court now being fully advised, hereby denies the motion without prejudice for the reason that the record does not reveal that an injunction has issued or is about to issue in or out of the above entitled action.

/s/ ALBERT LEE STEPHENS,
/s/ RICHARD H. CHAMBERS,
United States Circuit Judges
/s/ J. FRANK McLAUGHLIN,
United States District Judge

[Endorsed]: Filed December 3, 1954. Paul P. O'Brien, Clerk.

[Title of U. S. Court of Appeals and Cause.]

STATEMENT OF POINTS UPON WHICH APPELLANTS INTEND TO RELY

Appellants Edmund W. Pitzer, Clifford Dillon and Edcliff Instruments intend to rely upon the following Points in support of their appeal from the judgment of the United States District Court below:

1. The District Court erred in denying the Motion of defendants and appellants for a Partial Summary Judgment and for an Order of Direction as to further proceedings.
2. The District Court erred in finding and ad-

judging that United States Patent No. 2,515,981 is valid.

3. The District Court erred in finding and adjudging that United States Patent No. 2,515,981 is infringed by the Model D-1, Model A-1, Model B-1, Model XP, Model L, Model E-1 or Model F-1 potentiometers manufactured by defendants and appellants, or by any of said models.

4. The District Court erred in refusing to find and adjudge that the Model B-11 potentiometer manufactured by defendants and appellants does not infringe United States Patent No. 2,515,981.

5. The District Court erred in refusing to find and adjudge that the Model B-12 potentiometer manufactured by defendants and appellants does not infringe United States Patent No. 2,515,981.

6. The District Court erred in finding and adjudging that the Fourth Counterclaim of defendants and appellants for a declaratory judgment with respect to the validity and infringement of United States Letters Patent No. 2,515,981 be dismissed.

7. The District Court had no jurisdiction to enjoin the sale by defendants and appellants of potentiometers to the United States or to its contractors or subcontractors within the meaning of Section 1498 of Title 28 of the United States Code, and the District Court erred in refusing to exclude such sales from the portion of the Interlocutory Judgment providing that plaintiff and appellee was en-

titled to injunctive relief and in ruling that evidence of sales by defendants and appellants of potentiometers to the United States, its contractors or subcontractors within the meaning of Section 1498 of Title 28 of the United States Code, was not material and would not be considered by the said District Court in advance of a hearing before the Master on the issue of damages resulting from the claimed infringement of United States Letters Patent No. 2,515,981.

8. The District Court erred in awarding a Judgment to plaintiff and appellee for his taxable costs.

9. The District Court erred in making its Finding of Fact X in that said Finding of Fact is clearly erroneous and is not supported by the evidence.

10. The District Court erred in making its Finding of Fact XI in that said Finding of Fact is clearly erroneous and is not supported by the evidence.

11. The District Court erred in making its Finding of Fact XII in that said Finding of Fact is clearly erroneous and is not supported by the evidence.

12. The District Court erred in making its Finding of Fact XIII in that said Finding of Fact is clearly erroneous and is not supported by the evidence.

13. The District Court erred in making its Find-

ing of Fact XIV in that said Finding of Fact is clearly erroneous and is not supported by the evidence.

14. The District Court erred in making its Finding of Fact XV in that said Finding of Fact is clearly erroneous and is not supported by the evidence.

15. The District Court erred in making its Finding of Fact XVI in that said Finding of Fact is clearly erroneous and is not supported by the evidence.

16. The District Court erred in making its Finding of Fact XVII in that said Finding of Fact is clearly erroneous and is not supported by the evidence.

17. The District Court erred in making its Finding of Fact XVIII in that said Finding of Fact is clearly erroneous and is not supported by the evidence.

18. The District Court erred in making its Finding of Fact XIX in that said Finding of Fact is clearly erroneous and is not supported by the evidence.

19. The District Court erred in making its Finding of Fact XX in that said Finding of Fact is clearly erroneous and is not supported by the evidence.

The findings of fact referred to in the foregoing

items 9 to 19, inclusive, are set forth at pages 164 to 165 of the Certified Record on Appeal.

Dated: December 3, 1954.

GIBSON, DUNN & CRUTCHER,

/s/ By SAMUEL O. PRUITT, JR.,

Attorneys for Defendants and Appellants, Edcliff Instruments, Edmund W. Pitzer, and Clifford Dillon.

[Endorsed]: Filed December 6, 1954. Paul P. O'Brien, Clerk.

United States
COURT OF APPEALS
for the Ninth Circuit

E. J. MURRAY,

Petitioner,

v.

COMMISSIONER OF INTERNAL REVENUE,

Respondent.

PETITIONER'S BRIEF

*Petition to Review a Decision of the Tax Court
of the United States*

FILED

MAR 10 1955

PAUL P. O'BRIEN,
CLERK

FREDERICK H. TORP,
CLEVELAND C. CORY,

1410 Yeon Building,
Portland 5, Oregon,

Attorneys for Petitioner.

SUBJECT INDEX

	Page
Jurisdictional Statement	1
Statement of the Case	2
Stipulated Facts	3
Specification of Errors	15
Summary of Argument	15
Argument	16
I. The court proceedings in <i>Murray v. Wiley</i> did not give rise to taxable income to petitioner	16
II. Assuming arguendo that petitioner realized tax- able income from the <i>Murray v. Wiley</i> litiga- tion, such income in 1937-1942 was taxable to petitioner in 1942 by virtue of the decision of the Oregon Supreme Court, and the income thereafter received by the Watters Group in 1942-1947 was taxable in the respective year of actual receipt by these agents	26
Conclusion	37

TABLE OF CASES

	Page
American Seating Co., 14 BTA 328	23
Day, Clarence E., BTA Memo Docket No. 105042 (1942) (§ 42, 197 P. H. Memo B.T.A. 42-499).....	29
Diescher, Samuel E., 36 BTA 732, aff'd 110 F. (2d) 90 (C.A. 3).....	29
Fulton Gold Corporation, 31 BTA 519, 521.....	22
Haberkorn v. U. S., 173 F. (2d) 587 (C.A. 6),.....	34
Harbor Plywood Corporation, 14 T. C. 158, 161, aff'd per curiam 187 F. (2d) 734 (C.A. 9).....	33
Healy v. Commissioner, 345 U.S. 278, 73 S. Ct. 671, 97 L. Ed. 1007, rehearing den. 345 U.S. 961, 73 S. Ct. 935, 97 L. Ed. 1380	35
Hiatt, P. J., 35 BTA 292	22
Hilpert v. Commissioner, 151 F. (2d) 929 (C.A. 5), reversing 4 T. C. 473	23, 24
Hines v. United States, 90 F. (2d) 957 (C.A. 7).....	29
Hopkins, William R., 41 BTA 1292 (acquiescence noted C. B. 1940-2, p. 4)	29, 30, 31
Hotel Astoria, Inc., 42 BTA 759	23
Huntington National Bank v. Commissioner, 90 F. (2d) 876 (C.A. 6)	29
Kern Company, The Ernst, 1 T. C. 249	23
L & M Holding Co., Appeal of, 3 BTA 601	29
Lawrence, A. M., 13 BTA 463	23
Lewis v. United States, 340 U.S. 590, 71 S. Ct. 522, 95 L. Ed. 560, rehearing den. 341 U.S. 923, 71 S. Ct. 941, 95 L. Ed. 356, reversing 91 F. Supp. 1017 ..	35
Maryland Casualty Co. v. United States, 52 Ct. Cl. 201, modified on other grounds, 251 U.S. 342, 40 S. Ct. 155, 64 L. Ed. 297	29

TABLE OF CASES (Cont.)

	Page
Murray v. Wiley, et al., 169 Or. 381, 127 P. (2d) 112 6, 15, 20, 21	21
Murray v. Wiley, et al., 169 Or. 418, 129 P. (2d) 66 9, 15, 18-19	19
Murray v. Wiley, et al., 180 Or. 257, 176 P. (2d) 243 10, 15, 19-20	20
Standard Slag Co. v. Commissioner, 63 F. (2d) 820, 821 (Ct. App. D. C.)	35
Strauss, Julia A., 2 BTA 599	29
Terminal Investment Co., 2 T. C. 1004	23
Tressler, S. B., T. C. Memo Docket Nos. 29044 and 35129 (1953) (§ 53.111 P. H. Memo T. C. 53- 353)	29
Union Pacific Railroad Company, 32 BTA 383, aff'd 86 F. (2d) 637 (C.A. 7)	23
United States v. Pfister, 205 F. (2d) 538 (C.A. 8)	29
Wilson, F. H., 12 BTA 403	29

STATUTES AND REGULATIONS**Page**

Section 272, Internal Revenue Code of 1939, as amended (now Section 6213 of Internal Revenue Code of 1954).....	1
Section 1141(a), Internal Revenue Code of 1939, as amended (now Section 7482 of Internal Revenue Code of 1954).....	1
Treasury Department (Regulations 111, 29.42.2-2)....	30

TEXT BOOKS

2 Mertens, Law of Federal Income Taxation, § 10.07, p. 11, and cases therein cited.....	29
2 Mertens, Law of Federal Income Taxation, § 10.07, p. 12, footnote 63.....	30

United States
COURT OF APPEALS
for the Ninth Circuit

E. J. MURRAY,

Petitioner,

v.

COMMISSIONER OF INTERNAL REVENUE,
Respondent.

PETITIONER'S BRIEF

*Petition to Review a Decision of the Tax Court
of the United States*

JURISDICTIONAL STATEMENT

The jurisdiction of the Tax Court of the United States to entertain the petition herein is based upon Section 272 of the Internal Revenue Code of 1939, as amended (now Section 6213 of the Internal Revenue Code of 1954). This court's jurisdiction to review the Tax Court's decision is founded upon Section 1141(a) of the Internal Revenue Code of 1939, as amended (now Section 7482 of the Internal Revenue Code of 1954).

Petitioner is a resident of Oregon and filed his federal tax return for the calendar year 1947 with the Collector of Internal Revenue at Portland (R. 80).

The opinion of the Tax Court (Arundell, J.) is reported at 21 T.C. (No. 6) p. 1049 and is contained in the Transcript of Record (R. 51-77).

STATEMENT OF THE CASE

This case involved petitioner's income tax for the calendar years 1946 and 1947 for which deficiencies were determined by the respondent in the respective amounts of \$1,967.95 and \$36,656.04. After petitioner had filed his petition with the Tax Court, the tax for the year 1946 was settled by stipulation.

With respect to the year 1947, the Tax Court held adversely to the petitioner by sustaining the Commissioner's determination that petitioner had realized ordinary income in the amount of \$57,512.64 in that year as the result of a final accounting which followed a decision by the Oregon Supreme Court in 1942 determining petitioner's interest in a building known as the "Murray Building," Klamath Falls, Oregon (R. 64).

The Tax Court found in petitioner's favor on several collateral questions involving deductions in 1947 for taxes, interest, depreciation and attorney's fees (R. 65, 74-77), so that the redetermined deficiency for the year 1947 was found to be \$32,332.37 (R. 79).

Petitioner asks for review by this court of the Tax Court's decision only in so far as it determined a de-

ficiency in petitioner's tax for the calendar year 1947 in the amount of \$32,332.37 (R. 80). The correctness of this determination depends upon two alternative propositions: (1) whether petitioner realized any taxable income by reason of the *Murray v. Wiley* litigation; or (2) even if taxable income did accrue to petitioner therefrom, whether it was all taxable to petitioner in the year 1947.

The case was tried upon a comprehensive stipulation of facts (R. 31-51) adopted by the Tax Court (R. 53-64) and summarized below for the convenience of the court.

STIPULATED FACTS

With respect to the questions for decision by this Court, the parties stipulated:

1. In the year 1928, petitioner and his wife, Rebecca J. Murray, purchased as tenants by the entirety certain unimproved real estate situated in Klamath Falls, Oregon. Thereafter, to partially finance the construction of a building on said real property (the property and its improvements being hereinafter referred to as the "Murray Building"), petitioner and his wife borrowed moneys from Pacific Savings and Loan Association, Tacoma, Washington. On August 20, 1932, the property was subject to a first mortgage in favor of the Pacific Savings and Loan Association in the principal amount of \$64,000.00, on which there was a balance due of approximately \$57,000.00 (R. 32).

2. On August 20, 1932, petitioner and his said wife, being then the owners of the Murray Building, conveyed the Murray Building to the Conger Corporation, an Oregon corporation, by deed warranting against all encumbrances except "existing mortgage, liens and taxes." The Conger Corporation was organized on August 5, 1932, the sole stockholders being W. A. Wiley, G. Q. D'Albini and Marie D'Albini, wife of G. Q. D'Albini. Wiley and D'Albini were petitioner's attorneys and petitioner was indebted to them for professional services theretofore rendered. The transaction was handled in the following manner: Wiley and D'Albini borrowed \$5,000.00 from a bank and deposited it to the credit of the Conger Corporation in purported payment for its stock. The Conger Corporation then issued its check for \$5,000.00 to petitioner as purported consideration for the deed of the property to the corporation, whereupon petitioner returned the money to the lending bank in liquidation of the bank's loan to Wiley and D'Albini, whose notes were returned to them. Petitioner also paid a \$10.00 charge for the use of the money (R. 33).

3. In May of 1934, the Pacific Savings and Loan Association brought suit to foreclose its first mortgage on the Murray Building and on March 23, 1935, the property was sold pursuant to a decree of foreclosure for the unpaid balance of \$56,984.78, the mortgagee being the purchaser. On March 21, 1936, the Conger Corporation, which appeared as the record owner of the Murray Building, gave notice of intention to redeem the property. On March 23, 1936, which was the last day of the statutory redemption period, the Conger

Corporation assigned the right of redemption and delivered a bargain and sale deed to the Murray Building to Mary L. Moore, Merle S. West, Charles J. Martin and Thomas B. Watters, hereinafter referred to as the "Watters Group." The same day the Watters Group exercised their purported right of redemption by redeeming the property. They paid to the Sheriff of Klamath County the sum of \$63,711.60, entered into possession thereof, and thereafter claimed to be the owners in fee of the property, free from any claim of the petitioner (R. 33-34).

4. At the time of the conveyance of the Murray Building to the Watters Group, the property was subject to liens for federal income taxes assessed against petitioner and Rebecca J. Murray. In November of 1936, the Watters Group informed the Deputy Collector in charge of collection of such taxes that the Collector should go ahead and sell the property and that the Watters Group would buy it at such sale, thereby better perfecting their title. In April, 1937, the United States Collector of Internal Revenue, Portland, Oregon, proceeded to sell the Murray Building to collect such tax, and it was bid in by the Watters Group for \$16,500.00. The tax liens so satisfied amounted to \$3,148.60 and the expenses of sale were \$4.35 (R. 34-35).

5. On March 22, 1938, petitioner and his wife, Rebecca J. Murray, filed suit in the Circuit Court of Oregon for the County of Klamath entitled "E. J. Murray and Rebecca J. Murray, Plaintiffs, v. W. E. Wiley, G. Q. D'Albini, Marie N. D'Albini, Mary L. Moore, Merle

S. West, Emma West, Charles J. Martin, Lynna Martin, Thomas B. Watters, Evelyn Watters, and J. W. Maloney as Collector of Internal Revenue for the United States of America, Defendants," wherein it was prayed that the court (a) decree that the plaintiffs were the beneficial owners of all right, title and interest in and to the Murray Building, (b) decree that the defendants, other than J. W. Maloney, were trustees holding the premises for the sole and exclusive benefit of the plaintiffs, (c) direct the defendants as trustees to convey the property to plaintiffs, and (d) require the defendants to render an accounting with respect to the operation by them of the Murray Building. On motion of defendant J. W. Maloney the cause was dismissed as to him for lack of jurisdiction. Rebecca J. Murray died on August 8, 1938, prior to any hearing, and petitioner thereafter succeeded to her right, title and interest in the Murray Building as surviving tenant by the entirety. On December 18, 1940, the Circuit Court of Oregon for the County of Klamath, by written opinion, held for defendants, whereupon petitioner took an appeal to the Supreme Court of Oregon (R. 35-36).

6. On June 30, 1942, the Supreme Court of Oregon in *Murray v. Wiley, et al.*, 169 Or. 381, 127 P. (2d) 112, reversed the lower court and held:

(a) That petitioner's conveyance of the Murray Building to the Conger Corporation was made to secure his indebtedness to his attorneys, Wiley and D'Albini, and that the Conger Corporation was the alter ego of Wiley and D'Albini, who were in the position of second mortgagees.

(b) The Conger Corporation held the property as a mortgagee in possession and its purported assignment of the statutory right of redemption affected property belonging to the petitioner and not to Wiley and D'Albini.

(c) The Watters Group, which received a conveyance from the Conger Corporation together with an assignment of the right of redemption, were the assignees of rights which in equity belonged to the petitioner and upon exercising the statutory right of redemption became mortgagees in possession, having the right to foreclose against petitioner, but being subject to his right to redeem upon payment of the sums found to be due them.

(d) The Watters Group had information as to the petitioner's rights in the property, or at least information sufficient to put them upon reasonable inquiry as to petitioner's rights in the property, and were not bona fide purchasers for value without notice.

(e) The petitioner was the beneficial owner of the property subject to the liens of the various defendants who were mortgagees in possession.

(f) The case must be remanded to the Circuit Court for an accounting appropriate to the situation. In such accounting the defendants would be entitled to

(1) Credit of \$63,711.60 paid in redeeming the property, plus interest at 6 per cent per annum from the date of payment.

(2) Credit of the amount of the federal tax lien against the property with interest at 6 per cent per

annum, and to receive from the Collector the balance of funds in his hands over the amount needed to satisfy such lien.

(3) Reasonable fees for the legal services performed by Wiley and D'Albini prior to and owing on August 20, 1932, less offsets for certain cash realized by Wiley and D'Albini on their sale to the Watters Group. Defendants Wiley and D'Albini are entitled to a lien subsequent to that of the Watters Group for any excess of the attorneys' fees remaining unpaid after crediting such cash offsets.

(4) Upon full accounting being had, covering the matters indicated and all dealings by the Watters Group as mortgagees in possession, a decree should be entered fixing the amount, if any, in which the Murray Building is subject to a lien in favor of the Watters Group and also fixing the amount, if any, in which the Murray Building is subject to a subsequent lien in favor of Wiley and D'Albini for attorneys' fees.

(5) The decree should provide that upon payment to the Watters Group and Wiley and D'Albini of the amounts of their respective liens, the defendants be directed to reconvey the property to petitioner, and in default of such reconveyance the decree stand in lieu thereof.

(6) The decree should also provide that if the respective sums are not paid the petitioner be foreclosed by sale, subject to redemption as in other mortgage foreclosures, the proceeds to be applied

first to the usual costs, thereafter to the extinguishment of the lien of the Watters Group, and thereafter to the extinguishment of the judgment and lien of Wiley and D'Albini, if any (R. 36-38).

7. Thereafter, the defendants petitioned the Supreme Court of Oregon for rehearing and on September 29, 1942, that court denied the petition by written opinion in *Murray v. Wiley, et al.*, 169 Or. 418, 129 P. (2d) 66, in which the court held:

(a) That matters relating to defendants' credits for cost of management and repairs to the Murray Building should be determined by subsequent accounting and not on the record then before the court.

(b) That the proceeding before the court was a suit by a mortgagor to redeem and not by a mortgagee to foreclose, and therefore the previous opinion, in so far as it related to foreclosure of petitioner by sale, subject to redemption, would be modified to provide that unless petitioner did redeem the property from the liens the decree of the Circuit Court should determine and specify a reasonable time within which petitioner might redeem from both liens, or be forever barred (R. 38-39).

8. The case was remanded to the Circuit Court of Oregon for the County of Klamath and hearing upon the disputed issues arising from the accounting of defendant mortgagees in possession was had. The Circuit Court held:

(a) Defendants were not entitled to interest at 10 per cent on \$65,000 paid to redeem but were entitled to interest at 6 per cent.

(b) Defendants were not entitled to credit of \$16,-500 paid on tax foreclosure sale but were entitled to \$3,152.95, the amount of the lien, together with interest thereon at 6 per cent per annum.

(c) Defendants were not entitled to credit for fees for supervision of the property.

(d) Defendants were not entitled to a credit for premiums paid on insurance policies on the Murray Building from which petitioner received no benefit.

(e) Defendants were not entitled to fees paid in attempting to get a refund of the excess paid to the Collector of Internal Revenue over the amount of the lien against the property.

(f) Defendants were not entitled to credit for accounting expenses in preparing their account in the action.

(g) Petitioner was not entitled to surcharge defendant for certain alleged mismanagement of the Murray Building.

(h) A balance was found due on the accounting of rents and profits in favor of defendants; and thereafter judgment was entered against petitioner (R. 39-40).

9. Both parties appealed said decision to the Supreme Court of the State of Oregon, which heard argument thereon on November 19, 1946, and by written opinion dated January 14, 1947, reported as *Murray v. Wiley, et al.*, 180 Or. 257, 176 P. (2d) 243, affirmed the trial court on all issues except that it directed that the decree be modified to provide that defendants have a

lien upon the mortgaged property in the amount of the ascertained balance but that the personal judgment against petitioner be eliminated. The cause was remanded to the trial court for a further accounting of the rents and profits as to the period subsequent to that covered by the previous accounting. The Circuit Court was again directed to determine upon and specify a reasonable time within which petitioner might redeem from the lien of the defendant's mortgage or be forever barred by the dismissal of his suit (R. 40-41).

10. On or about the 28th day of February, 1947, the defendants served upon petitioner an accounting of the rents and profits of the property. The first page of said accounting provided the following recapitulation (R. 42):

Statement of Account		February 28, 1947
Redemption Certificate	\$ 65,000.00	
Interest on \$65,000 at 6% from March 23, 1936, to February 28, 1947	42,658.87	\$107,658.87
Collector of Internal Revenue, tax lien \$ 3,152.95		
Interest on \$3,152.95 at 6% from April 26, 1937, to February 28, 1947	1,862.36	5,015.31
Disbursements, March 23, 1936, to February 28, 1947	25,501.01	
Interest at 6% on monthly balances of disbursements, March 23, 1936, to February 28, 1947	8,273.31	33,774.32

Total disbursements, March 23, 1936, to February 28, 1947	\$146,448.50
Receipts, March 23, 1936, to February 28, 1947	102,589.45
Interest at 6% on monthly balances of receipts, March 23, 1936, to February 28, 1947	33,218.74
	135,808.19
Balance February 28, 1947	\$ 10,640.31

11. On February 28, 1947, petitioner paid to the Clerk of the Circuit Court of the State of Oregon for the County of Klamath the sum of \$10,640.31, and there was thereupon entered a final decree declaring that petitioner had satisfied in full all liens upon the property and was thereby entitled to have the legal title reconveyed to him. The defendants were directed to reconvey to him within 10 days or have the reconveyance occur through operation of the decree. From and after February 28, 1947, the defendants surrendered possession of the Murray Building and the rents thereafter payable to petitioner (R. 42-46).

12. Petitioner did not file income tax returns for any of the years 1937 to 1946, inclusive, prior to July 15, 1947. On that date he filed returns for the years 1937 to 1946, inclusive, in which he reported business incomes (consisting of rent from the Murray Building), deductions for taxes, repairs and depreciation, and net business incomes in the amounts shown by the following tabulation:

<u>Year</u>	<u>Rent</u>	<u>Taxes</u>	<u>And Other Repairs Expenses</u>	<u>Depreciation</u>	<u>Business Net Income</u>
1937	\$11,225.00	\$ 2,055.78	\$ 472.22	\$ 2,347.62	\$ 6,349.38
1938	9,350.00	1,835.86	222.68	2,347.62	4,943.84
1939	8,125.00	1,941.18	155.63	2,347.62	3,680.57
1940	8,771.40	1,911.03	733.88	2,347.62	3,778.87
1941	8,500.00	1,817.13	101.07	2,347.62	4,234.18
1942	8,100.00	1,808.86	1,182.04	2,347.62	2,761.48
1943	8,100.00	1,763.72	258.99	2,347.62	3,729.67
1944	9,450.00	1,944.54	165.71	2,347.62	4,992.13
1945	10,100.00	2,250.41	39.84	2,347.62	5,462.13
1946	11,109.32	2,686.23	94.62	2,347.62	5,980.85
Total	\$92,830.72	\$20,014.74	\$3,426.68	\$23,476.20	\$45,913.10

The rentals reported by petitioner in his returns for the years 1937 to 1946, inclusive, as summarized in the above tabulation, were the sums which were used in the accounting approved by the court and the deductions for taxes, repairs and other expenses claimed in such returns are the sums included in said accounting approved by the court. However, through inadvertence, only \$155.71 was deducted as repairs and other expenses in the 1944 return in lieu of \$165.71 (R. 46-47).

13. On or about March 15, 1948, petitioner filed his federal income tax return for the calendar year 1947 with the Collector of Internal Revenue, Portland, Oregon, and paid the amount of \$9.41, the tax shown to be due thereon. The reported business income thereon consisted of the rentals shown for the months of January and February, 1947, in the accounting and the rentals thereafter received by petitioner for the remainder of the year. The business deductions shown thereon con-

sisted of the repairs shown for the said months of January and February in the said accounting, the repairs and taxes thereafter paid by petitioner in the remainder of the year, depreciation of \$2,347.62, and an interest deduction in the amount of \$19,575.80, being the difference between the interest credits and debits shown in the said accounting (R. 48).

14. On May 28, 1952, the petitioner having theretofore declined to execute a further consent extending the period of assessment for the year 1943 beyond June 30, 1952, the respondent mailed to petitioner a 90-day letter proposing the assessment of a tax of \$21,454.06 for that year. The said 90-day letter showed the basis for said assessment to be on the theory that by reason of the decision of the Supreme Court of Oregon handed down on June 30, 1942, the taxpayer realized gain in that year in the amount of \$43,573.91. On September 8, 1952, petitioner paid to the Collector of Internal Revenue, Portland, Oregon, the aforesaid claimed deficiency of \$21,454.06, together with interest thereon in the amount of \$10,919.02 (R. 48-49).

15. Petitioner had no income in any of the tax years 1942 through 1945 except to the extent that income from the Murray Building or income resulting from the decrees entered in *Murray v. Wiley* litigation was realized in any of such years (R. 49).

SPECIFICATION OF ERRORS

1. The Tax Court erred in holding that petitioner realized any taxable income at any time as the result of the state court proceedings in *Murray v. Wiley*, 169 Or. 381, 127 P. (2d) 112; 169 Or. 418, 129 P. (2d) 66 (1942); 180 Or. 257, 176 P. (2d) 243 (1947).
2. In the alternative, assuming without conceding that taxable income was realized as a result of said proceedings, the Tax Court erred in holding that all such income was realized in 1947.

SUMMARY OF ARGUMENT

1. The entry of the accounting and final decree in the litigation known as *Murray v. Wiley* on February 28, 1947, did not give rise to taxable income to petitioner under the well-settled rule that cancellation or reduction of a lien against property which is not a personal obligation of its owner does not result in taxable income to him.
2. In the alternative, assuming without conceding that taxable income was realized from these court proceedings, it was not taxable to petitioner in the year 1947, except as to income for the months of January and February of that year. The net rentals for the years 1937, 1938, 1939, 1940, 1941 and 1942 were taxable to petitioner in 1942, when the claim of right thereto by the Watters Group was conclusively rejected by the Oregon Supreme Court. The net rentals for the years

1943, 1944, 1945 and 1946 were taxable to petitioner in each of those years when they were received by the Watters Group who were under a legal duty as mortgagees in possession to apply said rentals for petitioner's benefit, and to account to him therefor, pursuant to the 1942 decree of the Oregon Supreme Court.

ARGUMENT

I

The court proceedings in *Murray v. Wiley* did not give rise to taxable income to petitioner.

The accounting given by the accounting defendants to petitioner in the *Murray v. Wiley* litigation was the court-approved report of their period of custody and possession of his property. Under the decisions of the Supreme Court of Oregon the defendants were entitled to certain credits for expenditures made during their period of possession and use of petitioner's property. They were permitted to retain the rents from the property unlawfully appropriated by them to satisfy such approved expenditures and, as a net result, were not required to return such moneys to petitioner. The credits so allowed, together with interest, were sizable enough to be greater than the earnings from the property and interest thereon, and petitioner was required to pay to the defendants \$10,640.31 to recover his property free of their judicially determined liens. The most that can be said for such credits is that except for the fact that the petitioner's property produced earnings,

which petitioner never received, adequate enough to satisfy the bulk of these credits, petitioner, if he had so elected, might have had to pay more to recover full use and possession of his property. Does this fact generate taxable income?

Respondent's 90-day letter (R. 14-21) predicates his conclusions as to the manner in which said alleged income was realized as follows:

"The Bureau holds that by reason of the termination of the litigation relative to the possession and ownership of the Murray Building on February 28, 1947, you realized taxable income in the year 1947 in the amount of \$57,512.64, computed as follows:

Amount of 'redemption certificate' per accounting	\$65,000.00
Tax lien of Collector of Internal Revenue paid by defendants	3,152.95
<hr/>	
Total	\$68,152.95
<hr/>	
Less cash paid pursuant to decree of the court	10,640.31
<hr/>	
	\$57,512.64"

Respondent's position then is that taxable income was realized (a) upon the crediting to defendants of \$65,000.00 (which included amounts paid by the defendant Watters Group to defendants Wiley and D'Albini and not the amount required to redeem the property from the original mortgage foreclosure), and (b) upon the crediting to defendants of \$3,152.95 (the amount which would have been required to satisfy certain income tax liens against the property and not the

actual amount bid by defendants at the tax lien foreclosure sale).

These credits, which were held by the Tax Court to constitute income to petitioner, arose solely from the determination of the Oregon Supreme Court that the accounting defendants were entitled to such credits in the accounting for such particular items and amounts of the expenditures made by them. They are unrelated except in amount (and then not identical even in amount) to any transaction with which petitioner was directly connected.

Most important, these credits did not represent any *personal* liability of petitioner to the accounting defendants. The accounting defendants had no enforceable obligation against petitioner evidenced by note, mortgage, covenant or an agreement, either express or implied in law.

Their lien on petitioner's property was one which the Oregon Supreme Court found to be due under the peculiar circumstances established in the case. In its original decision the appellate court held that a decree should be entered providing that if the respective sums were not paid, the petitioner could be foreclosed by a sale subject to redemption as in other mortgage foreclosures. On rehearing, however, the court determined that this was not a suit by a mortgagee to foreclose a mortgage, but rather a suit by a mortgagor to redeem. After reviewing the authorities, the court held that its decree should be in the following form (169 Or. at p. 424; 129 P. (2d) at p. 69):

"This being a suit by the mortgagor to redeem, provisions concerning sale on foreclosure being for the benefit of the mortgagor and plaintiff having prayed only for relief in the nature of strict foreclosure, we are of the opinion that we are authorized to and in equity we should modify the last sentence of our former opinion. We apprehend that the plaintiff will not redeem from the purchasing defendants unless he is also able to and does redeem from the defendant attorneys, so the decree of the circuit court should determine upon and specify a reasonable time within which plaintiff may redeem from both liens or be forever barred."

On the second appeal, the Supreme Court specifically directed that no decree should be entered which was in the nature of a personal judgment against the petitioner (180 Or. at p. 274; 176 P. (2d) at p. 250):

"It appears that the trial court, perhaps by inadvertence on the part of counsel, entered a personal judgment against the plaintiff for the balance which was found in favor of defendants upon the accounting. The decree should be modified so as to provide that the defendants have a lien upon the mortgaged property in the amount of the ascertained balance but eliminating the personal judgment against plaintiff in that amount."

Incidentally, whether petitioner originally had any personal liability on the Pacific Savings and Loan Association mortgage is immaterial. This mortgage and the foreclosure thereof are of historical significance only and do not pertain to any of the legal relations, duties or liabilities between the parties involved in *Murray v. Wiley*, for as the Supreme Court of Oregon said on the second appeal (180 Or. at p. 261; 176 P. (2d) at p. 245):

"When defendants (Watters Group) redeemed the property from the sale on foreclosure under the Pacific Savings and Loan Association mortgage, the effect of that sale was completely wiped out."

Furthermore, the transfer of the Murray Building by petitioner to the Conger Corporation was not a transfer which itself gave rise to any obligation of petitioner to repay defendants any amount. The Supreme Court of Oregon reviewed the evidence on this point and commented on the fact that the conveyance was evidenced by the circulation of two checks for \$5,000, which were obviously for the purpose of making it appear that the Conger Corporation had purchased petitioner's interest in the Murray Building, although the defendants contended that the conveyance was made in payment of attorneys' fees. On this point, the court said (169 Or. at p. 388; 127 P. (2d) at p. 115):

"If the transaction was in fact a conveyance of the property in payment of the indebtedness owed, a safer and more candid procedure would have been to recite the cancellation of the plaintiff's debt as the consideration for the deed."

The defendant attorneys received promissory notes from the petitioner after the conveyance in payment of the indebtedness for attorneys' fees, which notes were still in their possession at the time of the decision of the Supreme Court (169 Or. at p. 391; 127 P. (2d) at p. 116). The Supreme Court concluded that the conveyance to the Conger Corporation was made to secure petitioner's indebtedness to the defendant attorneys, which were in the amounts of \$935 and \$750, respectively. Therefore, to the extent that any debt of the

petitioner owing to any of the defendants had to be satisfied in order to make payment of the indebtedness for which the alleged security was given, the amount of such attorneys' fees was the total amount of the indebtedness.

It is appropriate to examine the nature of the actual credits which were allowed against petitioner in *Murray v. Wiley*. On the first appeal, after finding that the Watters Group were mortgagees in possession, the court ordered the cause to be remanded for an accounting. On such accounting the defendants were to be entitled to a credit in the amount of \$63,711.60, plus interest at 6 per cent per annum from the date of payment, representing the amount paid for redemption of the property. They also were given credit for the amount which they had paid to satisfy the income tax lien, with interest at 6 per cent (169 Or. at pp. 415-416; 127 P. (2d) at p. 125). Thus the two principal credits which the Supreme Court of Oregon held the defendants entitled to in the accounting did not arise by virtue of any agreement between the parties that such moneys would be expended on petitioner's behalf. On the contrary, they represented amounts expended by the defendants in an effort to obtain good title to the property in themselves.

Petitioner cannot be considered to have received income on account of the two disbursements made by the accounting defendants, unless there had existed a personal obligation owing by him to the defendants to repay them for such disbursements made in prior years. However, as explained above, no such personal liability existed.

While the satisfaction of the lien, as found by the final accounting between the parties, may be considered as a discharge of obligations relating to petitioner's property, it is a well-settled principle that the reduction, satisfaction or cancellation of an indebtedness or obligation which is not a personal obligation of the owner of property does not result in taxable income to him. At most, it may result in some adjustment in the basis of the property.

For instance, where a property was purchased subject to a mortgage which was not assumed and the mortgage indebtedness was subsequently satisfied for less than face before maturity, the Board of Tax Appeals held that such payment did result in the liquidation of a personal debt: "By it the petitioner merely satisfied an encumbrance on property in which it had an equity and there was no release of assets 'previously offset by the obligation' of the notes or bonds evidencing the debt secured by the mortgage." *Fulton Gold Corporation*, 31 BTA 519, 521.

In *P. J. Hiatt*, 35 BTA 292, the taxpayer was the owner of lands in a reclamation district which were mortgaged in an amount in excess of their then fair market value. The reclamation district had levied an assessment against the lands which was not a personal obligation of the taxpayer. To protect its mortgage the mortgagee advanced moneys in the purchase of bonds which were applied in satisfaction of the assessment. The Board held that even though the bonds reduced the debt against the petitioner's land, no gain, profit or income could be spelled out of such a transaction.

See also: *American Seating Co.*, 14 BTA 328; *A. M. Lawrence*, 13 BTA 463; *Union Pacific Railroad Company*, 32 BTA 383, aff'd 86 F. (2d) 637; *The Ernst Kern Company*, 1 T.C. 249; *Hotel Astoria, Inc.*, 42 BTA 759; and *Terminal Investment Co.*, 2 T.C. 1004.

This principle of law was followed by the United States Court of Appeals for the Fifth Circuit in the case of *Hilpert v. Commissioner*, 151 F. (2d) 929, reversing 4 T.C. 473. In that case, as in this, the taxpayers had given a deed to one Markell which they considered to be a mortgage. Litigation was subsequently instituted in the state courts in Florida which resulted in a determination that the deed, although absolute on its face, was in fact a mortgage. The courts fixed a period within which the taxpayers would be allowed to redeem their property or else be barred from all right, title and interest therein. In summarizing the facts relating to credits similar to those here involved, the Court of Appeals stated (151 F. (2d) at p. 930):

"The court also took an accounting of the rents collected by Markell and his vendees, who were decreed to be in privity with him. After allowing Markell interest at 6 per cent on the \$65,000, and after deducting the rents collected by Markell, the court found that the amount necessary to redeem was \$54,364.67. The net rentals collected by Markell paid the interest and reduced the \$65,000, which he had paid the Hilpers, to the sum of \$54,364.67."

The *Hilpert* case involved two additional facts, neither of which is material to the point at issue in this case. The taxpayers there had reported the original conveyance of the property as a sale. This may have

conditioned the thinking of the court as to the equities of the situation, but it is obvious from the opinions of both the Tax Court and the Court of Appeals that the manner of reporting the original transaction was not determinative of the taxable effect of the conclusion of the successful litigation. The taxpayers had also made arrangements to sell the property immediately upon the completion of the litigation; funds were advanced by the purchaser to redeem the property; and the property ended up in the hands of such purchaser rather than in the hands of the taxpayers. This fact was material in the court's decision with respect to the taxable gain involved in such sale but was not pertinent to the theory of the decision which is applicable here.

In the *Hilpert* case the taxpayers received credit of \$10,635.33 of net rentals collected by the mortgagee in possession, which went to reduce the amount they were or would have been required to pay to redeem the property. The Court of Appeals nevertheless correctly held that since there was no present personal liability on the taxpayers, they had received nothing out of the transaction giving rise to taxable income other than the amount received from the purchaser.

It should be noted that in the *Hilpert* case the mortgage which the court refers to was given by the taxpayers to the mortgagee in possession, and a payment of \$65,000 had actually been made by the mortgagee in possession to the taxpayers. In the instant case, the Oregon courts found no such moneys paid by the accounting defendants to the petitioner. While the Oregon Supreme Court held that the accounting defendants were in the

position of mortgagees in possession, the original consideration to them, and then only to two of them, was solely as security for an indebtedness. In other words, the petitioner here at no time received anything of value which constituted a satisfaction of any indebtedness owing by him arising from the receipt of funds from the defendants. Petitioner contends that in this respect the instant case is even stronger on its facts than the *Hilpert* case for the application of the rule that no taxable income arises from the reduction or satisfaction of a lien against property where the owner has no personal obligation with respect thereto.

In the case at bar, the court below refused to follow the decision of the Court of Appeals for the Fifth Circuit in the *Hilpert* case, as well as the principle enunciated in its own decisions above cited. We respectfully submit that the *Hilpert* case, which has not been overruled or distinguished since its promulgation, should be followed by this court. Under the principle of that case, a decision is required here that petitioner did not realize any taxable income by reason of the *Murray v. Wiley* litigation.

II

Assuming arguendo that petitioner realized taxable income from the *Murray v. Wiley* litigation, such income in 1937-1942 was taxable to petitioner in 1942 by virtue of the decision of the Oregon Supreme Court, and the income thereafter received by the Watters Group in 1942-1947 was taxable in the respective year of actual receipt by these agents.

On June 15, 1947, petitioner filed returns for the years 1937 to 1946, inclusive, in which he reported net business rentals for those years. The rentals so reported were the sums approved by the trial court in the *Murray v. Wiley* accounting (R. 46-47).

On May 28, 1952, respondent sent to petitioner a 90-day letter proposing an assessment of a tax for the year 1943 in the sum of \$21,454.06. The basis for said assessment was that by reason of the decision of the Supreme Court of Oregon on June 30, 1942, in *Murray v. Wiley*, petitioner realized income in that year in the amount of \$43,573.91. Petitioner paid the claimed deficiency of \$21,454.06, with interest thereon in the amount of \$10,919.02 (R. 48-49).

Although petitioner has twice paid an income tax on the net rentals of the Murray Building in the years 1937, 1938, 1939, 1940, 1941 and 1942, and has once paid a tax on net receipts in the years 1943, 1944, 1945, 1946 and 1947, the Tax Court in this proceeding has held that \$57,512.64, the entire amount of net rentals, minus interest, which was realized during these years up

to February 28, 1947, was ordinary income to the petitioner in the year 1947.

The crux of Judge Arundell's opinion on this point is that petitioner had not constructively received any income until the conclusion of the accounting proceeding in February, 1947, that he was out of control of the property, and that nothing was set aside for petitioner or available to him from the rents received during the intervening years. The court concluded: "Until the accounting proceeding was actually terminated there was no definite apportionment of the income from the property between the petitioner and the mortgagees in possession, and petitioner had no right to demand payment of the rents from the property and convert them to his own use." (R. 74.)

The Tax Court fell into clear error in applying the doctrine of constructive receipt, and in failing to interpret properly the effect of the decisions of the Supreme Court of Oregon in 1942 with respect to petitioner's rights in the Murray Building.

In its first opinion the Oregon court concluded (1) the deed to the Conger Corporation was in equity a mortgage; (2) the Watters Group were not bona fide purchasers without notice; (3) on the contrary, the Watters Group were mortgagees in possession; and (4) petitioner was the beneficial owner of the property subject to the defendants' liens (R. 36-37, and 169 Or. at pp. 400, 414; 127 P. (2d) at p. 126). On the second appeal, the Oregon court explicitly rejected the defendants' contention that they had become mortgagees in

possession only by virtue of the earlier decision of the court. On this point the Oregon court wrote: "We merely declared that in the eyes of equity they had been and were mortgagees in possession." (180 Or. at p. 268; 176 P. (2d) at p. 248.)

Consequently, it is undisputed that the defendants in the *Murray v. Wiley* litigation at all times were mortgagees in possession, and as such they were under the duty to account to petitioner for the rents during the entire period of their possession, although they also were entitled to have the rentals applied to the extinguishment of their liens against the property.

At all times subsequent to September 29, 1942, when the Supreme Court of Oregon denied the petition for rehearing in *Murray v. Wiley*, petitioner was the equitable owner of the Murray Building and he was entitled to the income from said property, against which defendants were entitled to set off their judicially determined liens.

In fact, the 1942 court decisions so conclusively established petitioner's right to receive or be credited with the net rentals from the Murray Building that the Watters Group could thereafter have no valid claim of right to such receipts. The respective interests of the parties in the Murray Building were determined once and for all in 1942, and the only matters left open were the mechanics and details of an accounting.

Since defendants in the *Murray v. Wiley* litigation were under a legal duty imposed by the court to account to petitioner for the net income from the Murray

Building, it follows, as a matter of law, that the income through 1942 was taxable to petitioner in that year, and that the net receipts for the years 1943, 1944, 1945 and 1946 were correctly reported by petitioner as taxable to him in each of those years.

With respect to these receipts, the accounting defendants were in the position of agents for petitioner. The settled principle of agency law that receipt by an agent is equivalent to receipt by the principal is applicable to tax cases (2 *Mertens, Law of Federal Income Taxation*, § 10.07, p. 11, and cases therein cited); *Maryland Casualty Co. v. United States*, 52 Ct. Cl. 201, modified on other grounds, 251 U.S. 342, 40 S. Ct. 155, 64 L. Ed. 297; *Huntington National Bank v. Commissioner*, 90 F. (2d) 876 (C.A. 6); *Hines v. United States*, 90 F. (2d) 957 (C.A. 7); and *United States v. Pfister*, 205 F. (2d) 538 (C.A. 8).

This principle of law has been applied by the Board of Tax Appeals and the Tax Court in such cases as *Julia A. Strauss*, 2 BTA 599; *Appeal of L & M Holding Co.*, 3 BTA 601; *F. H. Wilson*, 12 BTA 403; *Samuel E. Diescher*, 36 BTA 732, aff'd 110 F. (2d) 90 (C.A. 3); *William R. Hopkins*, 41 BTA 1292 (acquiescence noted C. B. 1940-2, p. 4); *Clarence E. Day*, BTA Memo Docket No. 105042 (1942) (§ 42, 197 P.H. Memo B.T.A. 42-499); and *S. B. Tressler*, T. C. Memo Docket Nos. 29044 and 35129 (1953) (§ 53.111 P. H. Memo T. C. 53-353).

This principle is somewhat different from the doctrine of constructive receipt as defined and limited in the

regulations of the Treasury Department (see Regulations 111, 29.42.2-2). In 2 *Mertens, Law of Federal Income Taxation*, § 10.07, p. 12, footnote 63, it is stated:

"Payment to an agent is not a true example of constructive receipt. Agency is a general conception of the law, while 'constructive receipt' is a special conception under the law of taxation and is not necessary for an understanding of the legal results of a payment to an agent."

A factual situation very similar to that at bar was presented in *William R. Hopkins* (*supra*). In both the present case and the *Hopkins* case the litigation involved, first, the taxpayer's claim of right to certain property which was disputed by the other party to the litigation, and, second, an ultimate decree of an appellate court that the taxpayer was at all times the owner of the property, accompanied by a direction that the losing party in the litigation account to the successful party for the earnings of the property during the time that it was withheld from the other's possession. In the *Hopkins* case, the Board of Tax Appeals held that physical receipt of earnings from the property was not necessary where the earnings were received by the taxpayer's agent or trustee. The Board stated, in language applicable here with substitution of names, dates and description of property (41 BTA at pp. 1297-1298):

"A careful appraisal of the facts convinces us that, as the decree of the Ohio court holds, constructive possession of the stock was retained by the Griffiths as security for the petitioner's debts. The Griffiths and Guardian were thus nothing more nor less than agents of the petitioner to collect the income from the Buckeye stock, and apply it as

far as necessary to the discharge of petitioner's obligations. Receipt by agents was receipt by the petitioner, and that receipt occurred prior to 1933.

"The decree of the court in 1933 did not create income. It merely declared ownership of the Buck-eye stock in 1920 and required an accounting of the proceeds and avails of such stock. The income on the stock followed its ownership and receipt occurred in the preceding years. This is true of the cash as well as the other items comprised in the accounting. The decree did not cause conversion of assets into cash or make cash income in 1933."

It may be noted that the decision in the *Hopkins* case permitted the taxpayer to escape taxation in the years in which his agent or trustee received the earnings from the property. The petitioner here has voluntarily assumed tax liability by filing tax returns for each of the years in which the defendant mortgagees were in possession and paying the tax shown thereon to be due (R. 46-47).

In *S. B. Tressler* (*supra*), the Tax Court held that income from the petitioner's property, collected by a receiver in possession and applied upon the petitioner's obligations to his wife, including her attorney's fees and costs, was taxable to the petitioner, a cash basis taxpayer, in the year of its collection. The court stated: "That he had no actual control of the fund and did not receive cash in hand is of no consequence."

Thus, in the case at bar, the fact that petitioner had no actual control of the Murray Building rentals during the years 1942-1947 and that he received no cash during that period is immaterial. The determining fact is that

during that period, by virtue of the first decision of the Oregon Supreme Court, the accounting defendants had been made petitioner's agents for collection of rentals, etc., and they were obliged to apply the net income from the property for petitioner's benefit in extinguishment of their liens.

The contention was made in the court below that no benefit accrued to petitioner from the net rentals until 1947 when he redeemed the property by paying in the sum of \$10,640.31, which represented the difference between the outstanding liens against the property and the credits in petitioner's favor from nearly eleven years of operations. The claim is made that petitioner never would have received credit for any of the accumulated rental income if he had not made the crucial payment in 1947. Thus, it is argued, that such an uncertainty necessitates the accumulation of income over a long period of time until the happening of an event which removes the uncertainty forever.

The fallacy of such reasoning is that it requires looking to events taking place in subsequent years in order to determine the taxability of income actually received by the taxpayer's agent in a past year. In other words, this argument could have no validity if the balance on the 1947 accounting had been in petitioner's favor and the accounting defendants had been required to pay him a substantial amount in cash. Obviously, it makes no difference whatsoever that in order to redeem, petitioner had to pay, rather than receive, a cash balance in 1947.

A short answer to this argument is that from the time of the 1942 decisions of the Oregon Supreme Court petitioner received benefit, for the court's opinions determined that he was entitled to be credited with the net rentals from the property against the defendant's judicially determined liens. This benefit from receipts prior to the decision on the first appeal accrued in 1942, and the benefit thereafter from having the net rentals applied to the discharge of the liens accrued at the time the rentals were received by the Watters Group, who were mortgagees in possession, or agents of petitioner, as far as the collection of rentals was concerned.

In the case at bar, the 1942 appeal fixed petitioner's right to be credited with the net rentals from the property. The fact that five more years passed before the final balance of accounts was determined between the parties does not change the fact that from 1942 on petitioner was the owner of the Murray Building free of any claims of the accounting defendants, except for their judicially determined liens.

It is contrary to the orderly administration of the income tax laws for either a taxpayer to withhold income, or for the government to defer the taxation of income, merely because of some uncertainty as to time of ultimate receipt by a taxpayer of funds paid to his agent, as distinguished from a substantial contingency as to the taxpayer's right to be credited with such income (see *Harbor Plywood Corporation*, 14 T. C. 158, 161, aff'd *per curiam* 187 F. (2d) 734 (C.A. 9)).

This principle is well illustrated by the leading case of *Haberkorn v. U. S.*, 173 F. (2d) 587 (C.A. 6). There the taxpayers sued to recover back a tax which they had paid in 1942 upon a corporate bonus which had been distributed that year. Two years later it was determined that the bonus base had been miscalculated, and the previous overpayment was charged back on the company's books. The district court dismissed the case on the ground that the entire bonus had been received in the year 1942 under a claim of right and that it was taxable in its entirety in the year of its receipt. The Court of Appeals affirmed the judgment of dismissal and stated (p. 589).

"These rulings result logically from the recognized and settled principle that the Federal income tax system is based on an annual accounting, which requires the determination of income at the close of the taxable year without regard to the effect of subsequent events. *Burnet v. Sanford & Brooks Co.*, 282 U. S. 359, at page 365, 51 S. Ct. 150, at page 152, 75 L. Ed. 383, in which the Court stated —'It is the essence of any system of taxation that it should produce revenue ascertainable, and payable to the government, at regular intervals. Only by such a system is it practicable to produce a regular flow of income and apply methods of accounting, assessment, and collection capable of practical operation.' In *Heiner v. Mellon*, 304 U. S. 271, 58 S. Ct. 926, 82 L. Ed. 1337, the Court referred to a number of its prior decisions in which the rule had been applied, and in applying it in that case restated the rule in the following language: 'The federal income tax system is based on an annual accounting. Under that law the question whether taxable profits have been made is determined annually by the result of the operations of the year.' 304 U. S. at page 275, 58 S. Ct. at page

928. It is accordingly settled in the Federal income tax field that the tax on income actually received in a given year may not be withheld because the particular transaction from which such income flowed has not been completed in that year and losses may thereafter occur in a subsequent year."

To resolve a conflict between such cases as the *Haberkorn* case and the Court of Claims case of *Lewis v. United States*, 91 F. Supp. 1017, where the facts were substantially similar, the United States Supreme Court granted a petition for a writ of certiorari in the latter case (340 U.S. 903), and reversed the Court of Claims on the ground that the taxpayer at all times had claimed the full bonus as his own and therefore was obliged to pay tax on it in the year of receipt, even though in a subsequent year he was forced to repay it (*Lewis v. U. S.*, 340 U.S. 590, 71 S. Ct. 522, 95 L. Ed. 560; rehearing den. 341 U.S. 923, 71 S. Ct. 941, 95 L. Ed. 356). The *Lewis* case was subsequently followed in *Healy v. Commissioner*, 345 U.S. 278, 73 S. Ct. 671, 97 L. Ed. 1007; rehearing den. 345 U.S. 961, 73 S. Ct. 935, 97 L. Ed. 1380.

The fact that the net rentals received by the accounting defendants were subject to be applied towards satisfaction of the liens in their favor against the property does not militate against holding that they were taxable in the year of receipt by his agents, for the " * * courts have uniformly held that income is none the less such in the year of its receipt because subject to limitations upon its use and disposal." (*Standard Slag Co. v. Commissioner*, 63 F. (2d) 820, 821 (Ct. App. D. C.),

and cases cited therein.) In the *Standard Slag Co.* case, the taxpayer was engaged in the business of buying slag, produced as a by-product by iron and steel mills, and reselling it after processing. It had a contract with a steel mill for handling that company's entire output of granulated slag. One of the contract provisions stated that any surplus remaining over and above the expense of handling slag during the summer months should not be considered as profit but would be used in research and in experimental efforts towards finding a permanent market for the material. In the year 1921 the taxpayer received a large sum over and above the expense of handling the slag, and this money was expended in the next few years in research and experimental work as stipulated by the contract. The appellate court held this amount was taxable in the year of its receipt notwithstanding it was subject to an enforceable restriction upon its use.

Under these settled legal principles, the postponement of a final accounting between the parties in *Murray v. Wiley* from 1942 until February, 1947, could not defer the annual reporting of the income from the property for tax purposes, since it was received during those years by the accounting defendants as agents for petitioner, and they were required to apply these funds towards the extinguishment of liens against petitioner's property.

Therefore, the Tax Court erred in holding that petitioner realized income in the sum of \$57,512.64 in the year 1947 by reason of the termination of the *Murray v. Wiley* litigation.

CONCLUSION

The decision of the Tax Court of the United States should be reversed, and this case should be remanded for further proceedings in accordance with the opinion of this Court.

Respectfully submitted,

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In the United States Court of Appeals
for the Ninth Circuit

E. J. MURRAY, PETITIONER

v.

COMMISSIONER OF INTERNAL REVENUE, RESPONDENT

ON PETITION FOR REVIEW OF THE DECISION OF THE TAX
COURT OF THE UNITED STATES

BRIEF FOR THE RESPONDENT

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FILED

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INDEX

	Page
Opinion below	1
Jurisdiction	1
Question presented	2
Statute and Regulations involved	2
Statement	2
Summary of argument	12
 Argument:	
The Tax Court correctly held that the taxpayer realized income in 1947 in the amount of the net rentals credited to him in the final accounting in his suit to establish his right to the Murray property and the profits therefrom	13
A. Preliminary	13
B. The amount of the net rentals credited to the tax- payer in the final accounting constituted his taxable income	16
C. The full amount of the net rentals and interest credited to the taxpayer in the final accounting constituted his taxable income in 1947	23
Conclusion	27
Appendix	28

CITATIONS

Cases:

<i>Arcadia Refining Co. v. Commissioner</i> , 118 F. 2d 1010	18
<i>Bazley v. Commissioner</i> , 331 U.S. 737	17
<i>Boston Elevated Railway Co. v. Commissioner</i> , 16 T.C. 1084	25
<i>Brown v. Commissioner</i> , decided March 2, 1955	18
<i>Burnet v. Sandord & Brooks Co.</i> , 282 U.S. 359	19, 25
<i>Commissioner v. Smith</i> , 324 U.S. 177, rehearing denied, 324 U.S. 695	19
<i>Douglas v. Willcuts</i> , 296 U.S. 1	19
<i>Durkee v. Commissioner</i> , 162 F. 2d 184	19
<i>Commissioner v. Court Holding Co.</i> , 324 U.S. 331	17
<i>Gregory v. Helvering</i> , 293 U.S. 465	17
<i>Griffiths v. Commissioner</i> , 308 U.S. 355	17
<i>Harbor Plywood Corp. v. Commissioner</i> , 14 T.C. 158, affirmed, per curiam, 187 F. 2d 734	25
<i>Harrison v. Schaffner</i> , 312 U.S. 579	17
<i>Helvering v. Bruun</i> , 309 U.S. 461	19
<i>Helvering v. Clifford</i> , 309 U.S. 331	19
<i>Helvering v. Horst</i> , 311 U.S. 112	19
<i>Helvering v. Midland Ins. Co.</i> , 300 U.S. 216	19
<i>Helvering v. Stuart</i> , 317 U.S. 154, rehearing denied, 317 U.S. 602	19

Cases—Continued

Page

<i>Hilpert v. Commissioner</i> , 4 T.C. 473.....	21
<i>Hilpert v. Commissioner</i> , 151 F. 2d 929.....	21
<i>Hopkins v. Commissioner</i> , 41 B.T.A. 1292.....	26
<i>Hort v. Commissioner</i> , 313 U.S. 28.....	19
<i>Hyde Park Realty v. Commissioner</i> , 211 F. 2d 462.....	18
<i>Irwin v. Gavit</i> , 268 U.S. 161.....	19
<i>Liebes, H., & Co. v. Commissioner</i> , 90 F. 2d 932.....	18, 25
<i>Lucas v. American Code Co.</i> , 280 U.S. 445.....	25
<i>Lucas v. North Texas Co.</i> , 281 U.S. 11.....	25
<i>Murray v. Commissioner</i> , 21 T.C. 1049.....	1
<i>Murray v. Wiley</i> , 169 Ore. 381, 127 P. 2d 112.....	5, 8, 15
<i>Murray v. Wiley</i> , 180 Ore. 257, 176 P. 2d 243.....	15
<i>Nitterhouse v. United States</i> , 207 F. 2d 618, certiorari denied, 347 U.S. 943, rehearing denied, 347 U.S. 970.....	23
<i>North American Oil v. Burnet</i> , 286 U.S. 417.....	24
<i>Old Colony Tr. Co. v. Commissioner</i> , 279 U.S. 716.....	19
<i>Palm Beach Aero Corp. v. Commisssioner</i> , 17 T.C. 1169.....	18
<i>Raytheon Production Corp. v. Commissioner</i> , 144 F. 2d 110.....	18
<i>Swastika Oil & Gas Co. v. Commissioner</i> , 123 F. 2d 382, cer- tiorari denied, 317 U.S. 639	19
<i>Triplex Safety Glass Co. v. Latchum</i> , 44 F. Supp. 463, affirmed, 131 F. 2d 1023	18
<i>United States v. Safety Car Heating Co.</i> , 297 U.S. 88, rehearing denied, 297 U.S. 727	19, 25

Statute:

Internal Revenue Code of 1939:

Sec. 42 (26 U.S.C. 1952 ed., Sec. 22).....	28
Sec. 42 (26 U.S.C. 1952 ed., Sec. 42)	28

Miscellaneous:

1 Restatement of the Law of Agency, Sec. 1	26
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Treasury Regulations 111:

Sec. 29.42-1	29
Sec. 29.42-2	29

**In the United States Court of Appeals
for the Ninth Circuit**

No. 14579

E. J. MURRAY, PETITIONER

v.

COMMISSIONER OF INTERNAL REVENUE, RESPONDENT

*ON PETITION FOR REVIEW OF THE DECISION OF THE TAX
COURT OF THE UNITED STATES*

BRIEF FOR THE RESPONDENT

OPINION BELOW

The opinion of the Tax Court (R. 51-77) is reported at 21 T.C. 1049.

JURISDICTION

The petition for review (R. 80-85) involves a deficiency of \$36,656.04 in income tax for 1947. A notice of deficiency was mailed to the taxpayer on August 13, 1951. (R. 14.) Within ninety days thereafter and on November 7, 1951, the taxpayer filed with the Tax Court a petition for redetermination, under the provisions of Section 272 of the Internal Revenue Code of 1939. (R. 6-26.) The decision of the Tax Court was entered on July 26, 1954. (R. 79.) The case was

brought to this Court by a petition for review filed by the taxpayer on October 14, 1954. (R. 80-85.) Jurisdiction is conferred on this Court by Section 7482 of the Internal Revenue Code of 1954.

QUESTION PRESENTED

Whether the Tax Court correctly held that the taxpayer, who was on a cash basis, realized income in 1947, within the meaning of Section 42 of the Internal Revenue Code of 1939, to the extent of the net rentals credited to him in that year in connection with the final accounting and adjudication in a suit commenced in 1938, to establish his ownership of certain realty and his right to the net rentals therefrom.

STATUTE AND REGULATIONS INVOLVED

The applicable provisions of the statute and Regulations will be found in the Appendix, *infra*.

STATEMENT

The facts in this case have been stipulated (R. 31-51) and, as stipulated and found by the Tax Court, may be summarized as follows:

In 1928, E. J. Murray, referred to as the taxpayer, and his wife, Rebecca J. Murray, purchased as tenants by the entirety certain unimproved real estate situated in Klamath Falls, Oregon. To finance construction of a building on the property (the property and its improvements will be referred to as the Murray Building), the taxpayer and his wife borrowed \$64,000 from the Pacific Savings & Loan Association, Tacoma, Washington, giving in return a first mortgage on the property. (R. 53-54.)

On August 20, 1932, there was a balance of approxi-

mately \$57,000 due on the loan. On that date, the taxpayer and his wife conveyed the Murray Building to the Conger Corporation, an Oregon corporation, by deed warranting against all encumbrances except "existing mortgage, liens and taxes." The Conger Corporation was organized on August 5, 1932. Its sole stockholders were W. A. Wiley, G. Q. D'Albini and Marie D'Albini, wife of G. Q. D'Albini. Wiley and D'Albini were the taxpayer's attorneys and the taxpayer was indebted to them for professional services theretofore rendered. The transaction was handled in the following manner: Wiley and D'Albini borrowed \$5,000 from a bank and deposited it to the credit of the Conger Corporation in purported payment for its stock. The Conger Corporation then issued its check for \$5,000 to the taxpayer as purported consideration for the deed of the property to the corporation, whereupon the taxpayer returned the money to the lending bank in liquidation of the bank's loan to Wiley and D'Albini, whose notes were returned to them. The taxpayer also paid a \$10 charge for the use of the money. (R. 54.)

In May, 1934, the Pacific Savings & Loan Association brought suit to foreclose its first mortgage on the Murray Building and on March 23, 1935, the property was sold pursuant to a decree of foreclosure for the unpaid balance of \$56,984.78. The mortgagee was the purchaser. (R. 54-55.)

On March 21, 1936, the Conger Corporation, which appeared as the record owner of the Murray Building, gave notice of intention to redeem the property. On March 23, 1936, which was the last day of the statutory redemption period, the Conger Corporation assigned

the right of redemption and delivered a bargain and sale deed to the Murray Building to Mary L. Moore, Merle S. West, Charles J. Martin and Thomas B. Watters, referred to as the Watters Group. On the same day the Watters Group exercised their purported right of redemption by redeeming the property, paid to the Sheriff of Klamath County the sum of \$63,711.60, entered into possession, and thereafter claimed to be the owners in fee of the property, free from any claim of the taxpayer. (R. 55.)

At the time of the conveyance of the Murray Building to the Watters Group, the property was subject to liens for federal income tax in the amount of \$3,148.60 assessed against the taxpayer and Rebecca J. Murray. In November, 1936, the Watters Group advised the Deputy Collector in charge of collection of such tax to sell the property at public sale and that the Watters Group would buy it at such sale, thereby better perfecting their title. In April, 1937, the United States Collector of Internal Revenue, Portland, Oregon, proceeded to sell the Murray Building to collect the tax, and it was bid in by the Watters Group for \$16,500. The Watters Group was forced to pay that price by competitive bids although the tax liens amounted only to \$3,148.60. (R. 55-56.)

On March 22, 1938, the taxpayer and his wife filed suit in the Circuit Court of Oregon for the County of Klamath entitled "E. J. Murray and Rebecca J. Murray, Plaintiffs, v. W. E. Wiley, G. Q. D'Albini, Marie N. D'Albini, Mary L. Moore, Merle S. West, Emma West, Charles J. Martin, Lynna Martin, Thomas B. Watters, Evelyn Watters, and J. W. Maloney as Collector of Internal Revenue for the United States of

America, Defendants," wherein it was prayed that the court (a) decree that the plaintiffs were the beneficial owners of all right, title and interest in and to the Murray Building, (b) decree that the defendants, other than J. W. Maloney, were trustees holding the premises for the sole and exclusive benefit of the plaintiffs, (c) direct the defendants as trustees to convey the property to plaintiffs, and (d) require the defendants to render an accounting with respect to the operation of the Murray Building. On Motion, defendant J. W. Maloney was dismissed for lack of jurisdiction of the court. (R. 56.)

Rebecca J. Murray died on August 8, 1938, prior to hearing in the above entitled litigation. The taxpayer succeeded to her right, title and interest in the Murray Building as surviving tenant by the entirety. (R. 56.)

On December 18, 1940, the Circuit Court of Oregon, by written opinion, held for the defendants. The taxpayer took an appeal to the Supreme Court of Oregon. (R. 56-57.)

On June 30, 1942, the Supreme Court of Oregon, in *Murray v. Wiley*, 169 Ore. 381, 127 P. 2d 112, reversed the lower court and held (R. 57):

(a) That the taxpayer's conveyance of the Murray Building to the Conger Corporation was made to secure his indebtedness to his attorneys, Wiley and D'Albini, and that the Conger Corporation was the *alter ego* of Wiley and D'Albini, who were in the position of second mortgagees.

(b) The Conger Corporation held the property as a mortgagee in possession and its purported assignment of the statutory right of redemption affected property

belonging to the taxpayer and not to Wiley and D'Albini.

(c) The Watters Group, which received a conveyance from the Conger Corporation together with an assignment of the right of redemption were the assignees of rights which in equity belonged to the taxpayer and upon exercising the statutory right of redemption became mortgagees in possession, having the right to foreclose against the taxpayer but being subject to his right to redeem upon payment of the sums found to be due them.

(d) The taxpayer was the beneficial owner of the property subject to the liens of the various defendants who were mortgagees in possession.

The Supreme Court ordered the proceeding remanded for an accounting, directing that the defendants were entitled to (R. 57-58) :

1. Credit of \$63,711.60 paid in redeeming the property, plus interest at six percent per annum from the date of payment.

2. Credit of the amount of the federal tax lien against the property with interest at six percent per annum and to receive from the Collector the balance of funds in his hands over the amount needed to satisfy such lien.

3. Reasonable fees for the legal services performed by Wiley and D'Albini prior to and owing on August 20, 1932, less offsets for certain cash realized by Wiley and D'Albini on their sale to the Watters Group. Defendants Wiley and D'Albini were also entitled to a lien subsequent to that of the Watters Group for any excess of the attorneys' fees remaining unpaid after crediting such cash offsets.

Upon full accounting being had, covering the matters indicated and all dealings by the Watters Group as mortgagees in possession, the Supreme Court of Oregon ordered that a decree be entered fixing the amount, if any, in which the Murray Building would be subject to a lien in favor of the Watters Group and also fixing the amount, if any, in which the Murray Building would be subject to a subsequent lien in favor of Wiley and D'Albini for attorneys' fees. The decree was to provide that, upon payment to the Watters group and Wiley and D'Albini of the amounts of their respective liens, the defendants were directed to reconvey the property to the taxpayer. In default of such reconveyance, the decree was to stand in lieu thereof. (R. 58-59.)

Thereafter, the defendants petitioned the Supreme Court of Oregon for rehearing, and on September 29, 1942, that court denied the petition, adding (R. 59) :

(a) That matters relating to the defendants' credits for cost of management and repairs to the Murray Building could be determined only by a subsequent accounting and not on the record then before the court.

(b) That the proceeding was a suit by a mortgagor to redeem and not by a mortgagee to foreclose; therefore the previous opinion was modified to provide that, unless the taxpayer did redeem the property from the liens, the decree of the Circuit Court should specify a reasonable time within which he might redeem from both liens or be forever barred.

The matter was returned to the Circuit Court of Oregon, and hearing was held upon the disputed issues arising from the accounting of the defendant mortgagees in

possession. The Circuit Court of Oregon held that (R. 59-60) :

- (a) The defendants were entitled only to interest at six percent on \$65,000 paid to redeem.
- (b) The defendants were not entitled to credit of the \$16,500 paid on the tax foreclosure sale but were entitled to \$3,152.95, the amount of the lien, and the expenses of the public sale, together with interest thereon at six percent per annum.
- (c) The defendants were not entitled to credit for fees for supervision of the property.
- (d) The defendants were not entitled to a credit for premiums paid on insurance policies on the Murray Building from which the taxpayer received no benefit.
- (e) The defendants were not entitled to fees paid in attempting to get a refund of the excess paid to the Collector of Internal Revenue over the amount of the lien against the property.
- (f) The defendants were not entitled to credit for accounting expenses in preparing their account in the action.
- (g) The taxpayer was not entitled to surcharge the defendants for alleged mismanagement of the Murray Building.

The Circuit Court found a balance due on the accounting of rents and profits in favor of the defendants and entered judgment against the taxpayer. (R. 60.)

Both parties appealed this decision to the Supreme Court of the State of Oregon, which, by written opinion dated January 14, 1947, reported as *Murray v. Wiley*, 180 Ore. 257, 176 P. 2d 243, affirmed the trial court in all issues except that it directed that the decree be modified

to provide that the defendants have a lien upon the mortgaged property in the amount of the ascertained balance and eliminated the personal judgment against the taxpayer. The cause was remanded to the trial court for a further accounting of the rents and profits as to the period subsequent to that covered by the previous accounting. The Circuit Court was again directed to specify a reasonable time within which the taxpayer might redeem from the lien of the mortgage or be forever barred by the dismissal of his suit. (R. 60-61.)

On or about February 28, 1947, the defendants served upon the taxpayer an accounting of the rents and profits of the property. The following is a recapitulation of the accounting (R. 61) :

Statement of Account	February 28, 1947	
Redemption Certificate.....	\$ 65,000.00	
Interest on \$65,000 at 6% from March 23, 1936, to February 28, 1947.....	42,658.87	\$107,658.87
Collector of Internal Revenue, tax lien.....	3,152.95	
Interest on \$3,152.95 at 6% from April 26, 1937 to February 28, 1947.....	1,862.36	5,015.31
Disbursements, March 23, 1936, to February 28, 1947.....	25,501.01	
Interest at 6% on monthly balances of dis- bursements, March 23, 1936, to February 28, 1947.....	8,273.31	33,774.32
Total disbursements, March 23, 1936, to February 28, 1947.....		\$146,448.50
Receipts, March 23, 1936, to February 28, 1947.....	102,589.45	
Interest at 6% on monthly balances of receipts, March 23, 1936, to February 28, 1947.....	33,218.74	135,808.19
Balance February 28, 1947.....		<u><u>\$ 10,640.31</u></u>

On February 28, 1947, the taxpayer paid to the Clerk of the Circuit Court of the State of Oregon the sum of \$10,640.31. Thereupon, a final decree was entered, declaring that the taxpayer had satisfied in full all liens upon the property and was thereby entitled to have the legal title reconveyed to him. The defendants were directed to reconvey to him within ten days or have the

reconveyance occur through operation of the decree. (R. 62.)

From and after February 28, 1947, the defendants surrendered possession of the Murray Building and the rents were thereafter payable to the taxpayer. (R. 62.)

From the time he had conveyed the property to his attorneys in 1932 until he regained possession in 1947, none of the rents from the property were paid to the taxpayer. During all this period, the rents were paid to those who were in possession. The rents were accounted for and applied to the mortgage indebtedness which the Watters Group had paid when they redeemed the property, or to the expenses of operating the property while they were in possession. (R. 68.)

During all years here material, the taxpayer kept his books and records, and filed his income tax returns on the cash basis. (R. 53.)

The taxpayer did not file income tax returns for any of the years 1937 to 1946, inclusive, prior to July 15, 1947. On that date, he filed returns for the years 1937 to 1946, inclusive, in which he reported business income (consisting of rent on the Murray Building), deductions for taxes, repairs and depreciation, and net business income in the amounts shown by the following tabulation (R. 62, 63) :

Year	Rent	Taxes	And Other Repair Expenses	Deprecia- tion	Business Net Income
1937.....	\$11,225.00	\$ 2,055.78	\$ 472.22	\$ 2,347.62	\$ 6,349.38
1938.....	9,350.00	1,835.86	222.68	2,347.62	4,943.84
1939.....	8,125.00	1,941.18	155.63	2,347.62	3,680.57
1940.....	8,771.40	1,911.03	733.88	2,347.62	3,778.87
1941.....	8,500.00	1,817.13	101.07	2,347.62	4,234.18
1942.....	8,100.00	1,808.86	1,182.04	2,347.62	2,761.48
1943.....	8,100.00	1,763.72	258.99	2,347.62	3,729.67
1944.....	9,450.00	1,944.54	165.71	2,347.62	4,992.13
1945.....	10,100.00	2,250.41	39.84	2,347.62	5,462.13
1946.....	11,109.32	2,686.23	94.62	2,347.62	5,980.85
Total.....	\$92,830.72	\$20,014.74	\$ 3,426.68	\$23,476.20	\$45,913.10

The rentals reported by the taxpayer in his returns for 1937 to 1946, inclusive, as summarized in the above tabulation, were the sums which were used in the accounting approved by the trial court, and the deductions for taxes, repairs and other expenses claimed in such returns are the sums included in the accounting approved by the court. However, through inadvertence, only \$155.71 was deducted as repairs and other expenses in the 1944 return in lieu of \$165.71. (R. 63.)

On March 15, 1948, the taxpayer filed his federal income tax return for the calendar year 1947 with the Collector of Internal Revenue, Portland, Oregon, and paid the amount of \$9.41, the tax shown to be due thereon. The reported business income consisted of the rentals shown for the months of January and February, 1947, in the accounting referred to above, and the rentals thereafter received by the taxpayer for the remainder of the year, depreciation of \$2,347.62, and an interest deduction in the amount of \$19,575.80, the difference between the interest credits and debits shown in the accounting. (R. 64.)

The Commissioner determined that the gross rents from the property for the entire period the taxpayer was deprived of possession amounted to \$102,589.45. Interest on these rents allowed the taxpayer in the accounting amounted to \$33,218.74, resulting in total gross receipts recognized of \$135,808.19. Against these credits, the taxpayer was charged with expenses of maintenance in the amount of \$25,501.01, and interest on the mortgage and the other disbursements amounting to \$52,794.54, or an aggregate charge of \$78,295.55. Subtracting these offsets from the credits above (\$135,808.19—\$78,295.55), the Commissioner determined that

the effect of the litigation and the accounting as shown above resulted in ordinary income to the taxpayer in the amount of \$57,512.64. (R. 69.)

The Tax Court agreed. It held that the taxpayer had realized ordinary income in the amount of \$57,512.64 in 1947, as a result of the termination of the litigation involving the Murray Building. The Tax Court held that the taxpayer did not constructively receive any of the rentals between the period 1942 to 1947. This conclusion was based on its findings that the taxpayer was out of possession of the Murray property until the conclusion of the accounting proceeding; that he had no control over the rents until he ultimately satisfied the balance in favor of the mortgagees; that no rents were set aside for or made available to him; that until the accounting proceeding was actually terminated, there was no definitive apportionment of the income from the property between the taxpayer and the mortgagees in possession, and the taxpayer had no right to demand payment of the rents and convert them to his own use. (R. 64, 74.)

SUMMARY OF ARGUMENT

The taxpayer realized income when, in the final accounting in the state court litigation, he was credited with the rents (and interest thereon) collected by the mortgagees in possession and the sum thereof was applied against the amount owing to the mortgagees. In substance, the credit in the accounting procedure utilized by the state court should be regarded as if the taxpayer had recovered a judgment for the rents and interest. Furthermore, by payment of the balance owing to the mortgagees, as determined by the final accounting, the taxpayer effected repossession of his

property and thus procured for himself an economic satisfaction from the application of the credit.

The full amount of the net rentals and interest reflected in the credit was taxable income in 1947. The taxpayer was on the cash basis. He did not actually or constructively receive any of the amounts in question in any prior year. The final accounting was not concluded until 1947, and the practical benefit to the taxpayer of the credit in his favor determined therein was contingent upon payment of the balance owing to the mortgagees.

ARGUMENT

The Tax Court Correctly Held That the Taxpayer Realized Income in 1947 in the Amount of the Net Rentals Credited to Him in the Final Accounting in His Suit to Establish His Right to the Murray Property and the Profits Therefrom

A. Preliminary

The issues involved in this case are simply (1) whether the taxpayer realized income in the amount of the net rentals credited to him in the final accounting of his suit to recover title and to procure an accounting of profits, and (2) if so, when the income was realized. As to (1), the Tax Court held that the taxpayer realized ordinary income in the amount of \$57,-512.64 (R. 64) "as a result of the termination of the litigation involving the Murray Building". In the accounting ordered by the state court, the taxpayer was credited with rent and interest for the period from 1936 until 1947. In the view of the Tax Court (R. 71)—

The fact that the rents were realized only after great delay and then through the medium of a judicially ordered accounting proceeding *does not*

change the character of rent from a tax viewpoint. (Italics supplied.)

As to (2), the Tax Court held, upon the following rationale (R. 73-74), that the full amount of the net rentals was taxable in 1947 to the cash basis taxpayer: Until the accounting procedure was actually terminated in 1947, there was no definitive apportionment of the income from the property between the taxpayer and the mortgagees in possession. The taxpayer was still out of possession. He had no control over the rents until, pursuant to the state court decree, he ultimately satisfied the balance in favor of the mortgagees. Prior to 1947, he had no right to demand payment of the rents from the property and convert them to his own use. During the period 1942 to 1947, the rents were not set aside for or made available to him. He was therefore (R. 74) "not in constructive receipt of the rents from his property during the period involved in the accounting".

As the Tax Court has noted, and as the protracted state court litigation involving the Murray property indicates, this case (R. 66) "involves the tax treatment of a rather complicated real estate transaction". Nevertheless, the facts pertinent to a consideration of the issues here present a relatively simple picture. In 1928, the taxpayer * executed a first mortgage on the property in question. In 1932, he conveyed the property to the Conger Corporation, the *alter ego* of attorneys to whom he was indebted. In 1935, the first mortgagee foreclosed and bought in the property for

* Since the taxpayer's wife died in 1938, and he succeeded to her interest in the Murray property, the facts are related as if the taxpayer alone was involved.

approximately \$57,000. In 1936, the Conger Corporation gave notice of an intention to redeem. On the last day of the redemption period, however, it assigned the right of redemption and delivered a deed to the Watters Group. The Watters Group thereupon redeemed the property by payment of approximately \$63,000, and entered into possession. Subsequently, at public sale, it paid off a federal income tax lien on the property. It claimed to be the owners in fee of the property, free from any claim of the taxpayer. In 1938, the taxpayer commenced suit to establish his ownership of the property and to require the defendants (the attorneys and the members of the Watters Group) to render an accounting. In 1940, the state court held against the taxpayer, and he appealed. On June 30, 1942, the Supreme Court of Oregon (*Murray v. Wiley*, 169 Ore. 381, 127 P. 2d 112) reversed the Circuit Court, holding, in effect, that the Watters Group were mortgagees in possession, that the taxpayer was the beneficial owner of the property, and that upon payment of the amounts of the liens of the defendants he was entitled to a reconveyance of the property. The case was remanded for a full accounting, covering, among other things, all dealings by the Watters Group as mortgagees in possession. The Circuit Court subsequently determined that there was a balance due on the accounting of rents and profits in favor of the defendants and it entered judgment against the taxpayer. This decision was appealed by both parties. On January 14, 1947, the Supreme Court of Oregon, in *Murray v. Wiley*, 180 Ore. 257, 176 P. 2d 243, sustained the lower court's accounting conclusions, and remanded for an additional accounting to bring the decree up to date. The final accounting showed that for the over-all period

from March 23, 1936, to February 28, 1947, the taxpayer owed the Watters Group the sum of \$10,640.31. On the latter date, the taxpayer paid this amount and entered into possession of the Murray property. Pursuant to the mandate of the Supreme Court, the Circuit Court thereupon entered a final decree declaring that the taxpayer had fully satisfied all liens upon the property and was entitled to reconveyance of the legal title.

B. The amount of the net rentals credited to the taxpayer in the final accounting constituted his taxable income

In arriving at the balance of \$10,640.31 in favor of the defendants in the state court litigation, it is undisputed that the taxpayer was credited with the sum of \$135,808.19, representing gross rents collected by the mortgagees in possession, plus interest, for the period March 23, 1936, to February 28, 1947. Items totaling \$78,295.55 constituted proper charges against gross rents for the same period. These were maintenance expenses (\$25,501.01) paid by the mortgagees in possession, and interest thereon (\$8,273.31); interest on the \$3,152.95 lien (\$1,862.36); and interest on the amount paid by the mortgagees in possession in the exercise of the equity of redemption (\$42,658.87). (R. 61, 69.) Accordingly, the amount of the net rentals credited to the taxpayer in the final accounting (\$135,808.19 minus \$78,295.55) was \$57,512.64.

The Tax Court correctly concluded that this amount, "without question" (R. 71), was ordinary income to the taxpayer. An elementary principle in taxation is that tax consequences must depend on the substance of

a transaction, notwithstanding the form in which it is cast. Realities are to control and the form may be pierced to get at the real substance and effect of what has been done. Cf. *Gregory v. Helvering*, 293 U. S. 465, 470; *Griffiths v. Commissioner*, 308 U. S. 355; *Harrison v. Schaffner*, 312 U. S. 579; *Commissioner v. Court Holding Co.*, 324 U. S. 331; *Bazley v. Commissioner*, 331 U. S. 737. Thus, despite the fact that in the state court proceedings judgment for \$10,640.31 was entered for the defendants only, a proper analysis of the final accounting leading up to the decree requires the conclusion that the taxpayer in effect recovered in the litigation the sum of \$135,808.19, of which \$57,512.64, representing net rentals plus interest, was taxable as ordinary income under Section 22 (a) of the Internal Revenue Code of 1939 (Appendix, *infra*). If, for example, the rents collected by the mortgagees in possession, plus interest, had exceeded the amounts of the liens in their favor, and a judgment for the difference had been entered in favor of the taxpayer, it could hardly be denied that the recovery, to the extent it reflected net rentals plus interest, was ordinary income. And if, pursuant to the final accounting and decree in this case, there had been an exchange of checks between the taxpayer and the defendants, and the taxpayer had been paid directly the sum of \$135,808.19, it would have been made unnecessarily obvious that the taxpayer was recovering rents and interest.

But, as the Tax Court observed (R. 71), the fact that the recovery was effected through the mechanics of the judicially ordered accounting proceeding, in which it was determined that the amount owing by the taxpayer exceeded the amount owing to him, does not alter the

character as rents of what was in essence the taxpayer's recovery. Cf. *Brown v. Commissioner* (C.A. 7th), decided March 2, 1955 (1955 P.H., par. 72,468); *Palm Beach Aero Corp. v. Commissioner*, 17 T.C. 1169; *Hyde Park Realty v. Commissioner*, 211 F. 2d 462 (C.A. 2d). In *Brown v. Commissioner, supra*, for example, it was held that certain amounts credited by a lessor to a lessee constituted the lessor's income, as rents, where the lessee had improved the demised premises under the provisions of a lease which provided that the lessor would pay for part of the improvements by crediting the lessee for rental due under the lease.

The only practical and realistic view of the final accounting in the state court litigation in the instant case is to regard it as if the full amount of the rents and interest had first been paid over to the taxpayer, and then applied by him against the amounts of the mortgagees' liens on the property, or, in other words, as if the state court had rendered a separate judgment for the taxpayer. In this proper light, it follows that the taxpayer realized income. The taxability of what is in essence the principal amount of the recovery in a law suit depends upon the nature of the claim asserted and the basis of recovery. If, as was undeniably the situation here, the claim is for rents and profits, the recovery constitutes gain—a substitute for what otherwise might have been earned—and is taxable. *H. Liebes & Co. v. Commissioner*, 90 F. 2d 932, 935 (C.A. 9th); *Raytheon Production Corp. v. Commissioner*, 144 F. 2d 110, 113 (C.A. 1st), certiorari denied, 323 U. S. 779; *Triplex Safety Glass Co. v. Latchum*, 44 F. Supp. 436 (Del.), affirmed, 131 F. 2d 1023 (C.A. 3d); *Arcadia Refining Co. v. Commissioner*, 118 F. 2d 1010, 1011 (C.A. 5th);

Swastika Oil & Gas Co. v. Commissioner, 123 F. 2d 382 (C.A. 6th), certiorari denied, 317 U. S. 639; *Durkee v. Commissioner*, 162 F. 2d 184 (C.A. 6th); *Burnet v. Sanford & Brooks Co.*, 282 U. S. 359, 363-364; *United States v. Safety Car Heating Co.*, 297 U. S. 88, 93-94; *Hort v. Commissioner*, 313 U. S. 28, 30-31.

There is an additional and equally cogent reason why the Tax Court's conclusion that the taxpayer realized income in the amount of \$57,512.64 must be sustained. Section 22 (a) of the Code, as has been frequently noted, was drafted in the broadest possible terms, and encompasses the full sweep of the constitutional power of Congress to tax income from whatever source derived. *Irwin v. Gavit*, 268 U. S. 161, 166; *Douglas v. Willcuts*, 296 U. S. 1, 9; *Helvering v. Midland Ins. Co.*, 300 U. S. 216, 223; *Helvering v. Clifford*, 309 U. S. 331, 334; *Helvering v. Stuart*, 317 U. S. 154, 169, rehearing denied, 317 U. S. 602; *Commissioner v. Smith*, 324 U. S. 177, 181, rehearing denied, 324 U. S. 695. A realization of taxable income is not confined to instances where cash is received, either actually or constructively. Section 22 (a) is broad enough to include an economic or financial benefit conferred, whatever the form or mode by which it is effected. *Commissioner v. Smith*, *supra*, p. 181; *Helvering v. Bruun*, 309 U. S. 461; *Old Colony Tr. Co. v. Commissioner*, 279 U. S. 716, 729. As stated in *Helvering v. Horst*, 311 U. S. 112, 116—

But the rule that income is not taxable until realized has never been taken to mean that the taxpayer, even on the cash receipts basis, who has fully enjoyed the benefit of the economic gain represented by his right to receive income, can escape taxation because he has not himself received pay-

ment of it from his obligor. * * * This [realization] may occur when he has made such use or disposition of his power to receive or control the income *as to procure in its place other satisfactions which are of economic worth.* (Italics supplied.)

In the instant case, it is clear that the application of the credit for rents and interest against the amount owing to the mortgagees in possession conferred an economic benefit upon the taxpayer and procured for him a satisfaction of economic worth. The Supreme Court of Oregon had determined that the taxpayer was entitled to a reconveyance of the Murray property, but only upon payment of the amount determined by the accounting to be due the mortgagees in possession. It was not mandatory for the taxpayer to pay the balance owing according to the final accounting, and to repossess the property. In fact, the Supreme Court had expressly provided that if the taxpayer defaulted in the payment of the balance of \$10,640.31, the Circuit Court was to specify a reasonable time within which the taxpayer might redeem or be forever barred by the dismissal of his suit. But, immediately upon service of the final accounting, the taxpayer paid the \$10,640.31 into court. When this was done, the full amount credited to him in the accounting and applied against the amount of the mortgagees' liens, procured for him the repossession of his property. This was an economic satisfaction (cf. *Brown v. Commissioner, supra*), and to the extent, in effect, that the taxpayer thus made use of his right to receive or control the rents and interest credited to him, he realized taxable income.

The essence of the taxpayer's argument (Br. 16-25) is that the amounts of rents and interest credited to the

taxpayer in the final accounting do not constitute taxable income because the taxpayer had no *personal liability* for the balance determined to be owing to the mortgagees. In this regard, the taxpayer attempts to apply the principle that no taxable income results from the cancellation of an indebtedness which is not the personal obligation of the taxpayer involved. But this principle is not applicable here. This case does not involve a cancellation of indebtedness, but, more accurately and realistically, the receipt of amounts owing by the mortgagees to the taxpayer (in effect received by the taxpayer through the accounting device as taxable rents and interest) and their application against the larger amount owing by the taxpayer to the mortgagees. Viewed in this light, the fact that the taxpayer was not personally responsible for the payment of the \$10,640.31 balance owing to the mortgagees is immaterial. The fallacy of the taxpayer's approach is that it ignores completely the substance of the accounting transaction as we have described it above, and, in effect, makes the end result of the accounting procedure controlling.

The taxpayer relies heavily (Br. 23-25) upon *Hilpert v. Commissioner*, 151 F. 2d 929 (C.A. 5th). In that case, the Tax Court (*Hilpert v. Commissioner*, 4 T.C. 473), Judge Arundell dissenting, had held, among other things, that a certain sum representing net rentals received by a mortgagee and allowed to the mortgagor by the court as a credit on redemption was ordinary income to the mortgagor as a (p. 477)—

species of postponed or delayed income—the net proceeds from the rental of property covering a number of years—which, due to the peculiar cir-

cumstances, was received in accumulated form in the tax year in issue.

The Court of Appeals reversed, but, *as Judge Arundell himself has pointed out in the instant case (R. 72-73)—*

There were circumstances in the *Hilpert* case which influenced the Fifth Circuit considerably in reversing our decision in that case. For example, Hilpert had treated the original transfer of the property to his mortgagee as a sale and had paid a tax accordingly. He also sold the property after having successfully contended before the Florida courts that the original transfer was a mortgage and not a sale, and he paid another tax on that transaction. The Fifth Circuit observed that the practical effect of our decision was to tax the same sale twice. *The facts which influenced the Court of Appeals in the Hilpert case are absent in the instant proceedings and we do not think that that decision should be regarded as at all binding on us.* (Italics supplied.)

Even in the absence of the facts in the *Hilpert* case which persuaded the court to rule against the Commissioner on the issue common to that case and the instant case, we would submit that the *Hilpert* decision should not be followed, and that the dissenting view of Judge Hutcheson therein (p. 934), sustaining on principle the taxability of the credit to the mortgagor, is the correct view.

C. *The full amount of the net rentals and interest credited to the taxpayer in the final accounting constituted his taxable income in 1947*

The taxpayer was on the cash basis. As observed in *Nitterhouse v. United States*, 207 F. 2d 618, 619 (C.A. 3d), certiorari denied, 347 U.S. 943, rehearing denied, 347 U.S. 970, it needs no collection of authority to establish the proposition that taxpayers on a cash basis pay income tax on what they have received during a taxable year. Prior to 1947, however—when, in effect the \$57,-512.64 was for the first time brought under his control by his satisfaction of the balance in favor of the mortgagees—it is clear that the taxpayer had not himself actually received the amounts in question. Nor had he received them constructively, as he now apparently concedes. (Br. 27.) True, the 1942 decision of the Supreme Court of Oregon established that the taxpayer was the beneficial owner of the Murray property and directed its reconveyance to him, but this was to be done only after an accounting had established the balance owing to the defendants in the litigation and upon the payment of that balance by the taxpayer. Thus, as the Tax Court observed (R. 74):

Until the accounting proceeding was actually terminated [in 1947], there was no definitive apportionment of the income from the property between the petitioner and the mortgagees in possession, and petitioner had no right to demand payment of the rents from the property and convert them to his own use.

In the circumstances, the taxpayer was not in constructive receipt of the rents from his property at any time

from 1942 to 1947. They had not been credited to or set apart for him or made available for him to draw upon without substantial limitation or restriction as to the time or manner of payment or condition upon which payment was to be made, and, until 1947, their receipt was not brought within his own control and disposition. Treasury Regulations 111, Sec. 29.42-2, Appendix, *infra*.

Furthermore, until 1947, when the taxpayer actually paid the accounting balance of \$10,640.31 to the mortgagees, it was not at all certain that he would derive any economic satisfaction and thus realize any income from the application of the rents and interest to the amount of the liens on the property. This was apparent from the order of the Supreme Court of Oregon in 1942 (R. 59), and again in 1947 (R. 61), that unless the taxpayer redeemed the property from the liens of the mortgagees, a reasonable time should be specified within which the taxpayer might redeem or be forever barred by the dismissal of his suit. Thus, not only was the amount of the taxpayer's credit uncertain until 1947, but the actual credit itself was contingent upon payment of the balance owing to the mortgagees. As the Tax Court observed (R. 74), the taxpayer could not have been compelled to pay a tax, during the period from 1942 to 1947, "on something that he might never receive." Cf. *North American Oil v. Burnet*, 286 U.S. 417, 423. Accordingly, the Tax Court was correct in holding that the full amount of the net rentals and interest constituted taxable income ⁱⁿ its entirety in 1947, when, upon termination of the accounting proceeding, there was a definitive apportionment of the income from the property between the taxpayer and the mortgagees in possession, and

when the contingency for the realistic application of the credit to the taxpayer was met. Cf. *United States v. Safety Car Heating Co.*, 297 U.S. 88, 93-94, rehearing denied, 297 U.S. 727; *Lucas v. American Code Co.*, 280 U.S. 445, 451, 452; *North American Oil v. Burnet*, *supra*; *Lucas v. North Texas Co.*, 281 U.S. 11, 13; *Burnet v. Sanford & Brooks Co.*, 282 U.S. 359, 363; *Harbor Plywood Corp. v. Commissioner*, 14 T.C. 158, 161, affirmed *per curiam*, 187 F. 2d 734 (C.A. 9th); *H. Liebes & Co. v. Commissioner*, 90 F. 2d 932 (C.A. 9th); *Boston Elevated Railway Co. v. Commissioner*, 16 T.C. 1084, 1105. In *Nitterhouse v. United States*, *supra*, condemnation proceedings were started in 1943, and in 1944 the United States deposited the sum of \$5,370 (an amount exceeding the taxpayer's basis for the land) in the court's registry on account of just compensation to be awarded the taxpayer in the proceedings. In 1946, the taxpayer received a judgment for \$18,825 and was paid the principal sum and interest in that year, which was held to be the taxable year. The taxpayer claimed that a portion of the gain allocable to the amount deposited in 1944 should be considered as 1944 income. The Court of Appeals rejected the contention, stating (p. 620):

* * * we do not think that this deposit was available to the taxpayer at his will only. To withdraw it would have required a court order. And to get that order the petitioner would have to show that he had a clear title to the land free from tax and judgment liens and so on.

Similarly, in the instant case, the taxpayer's right to any rentals and interest rested not only upon an adjudication as to his ownership of the property but also, as a

condition precedent, upon his compliance with the decree to pay to the defendants the amount owing to them, as determined by the final accounting.

The gist of the taxpayer's argument is that he did actually receive the rents in question because the mortgagees in possession collected them *as his agent*. But the taxpayer does not spell out the facts purporting to establish an agency in this case, and indeed, they do not exist. For although it may be true that under Oregon law the mortgagees in possession were required to apply the rentals collected against the lien indebtedness, the imposition by law of this limitation upon their disposition of the rents collected did not, *ipso facto*, create an agent-principal relationship between them and the taxpayer. Agency is a relationship which results from the manifestation of consent by one person to another that the other shall act on his behalf and subject to his control and consent by the other so to act. 1 Restatement of the Law of Agency, Section 1. The situation in the instant case obviously does not meet these qualifications. In this connection, the cases cited to support the taxpayer's hypothesis of agency (Br. 29) are inapplicable. Analysis of their facts clearly shows that in the claimed taxable years either a true agent-principal relationship existed, or the taxpayer had constructively received the amounts in question, or the amounts collected were used to discharge a personal obligation of the taxpayer involved. For example, in *Hopkins v. Commissioner*, 41 B.T.A. 1292, discussed by taxpayer at some length (Br. 30-31), there was an express agreement whereby one party was to retain possession of stock purchased for the taxpayer as security against moneys advanced. Dividends paid on the stock were explicitly found to

have been collected by that party for the taxpayer (p. 1298) :

The Griffiths and the Guardian were * * * nothing more nor less than *agents* of the petitioner to collect the income from the Buckeye stock and apply it as far as necessary to the discharge of the petitioner's obligations. * * * (Italics supplied.)

Nor do the so-called claim of right cases cited by the taxpayer (Br. 34, 35) have any application here. Taxability under the principle announced in those cases turns upon the actual receipt of income in the taxable period involved, with no restriction as to disposition, but subject to repayment in a subsequent period. However, in the instant case there was no receipt of income—actual, constructive or through an agent—and, indeed, no realization of income until 1947, when the amount to which the taxpayer was entitled as a credit in the accounting became fixed and certain, and when, because of his compliance with the mandate of the court to pay over the balance to the mortgagees as a condition of reconveyance, he acquired in effect, for the first time, the (R. 74) "right to demand payment of the rents from the property and convert them to his own use."

CONCLUSION

The decision of the Tax Court is correct and should therefore be affirmed.

Respectfully submitted,

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MARCH, 1955.

APPENDIX

Internal Revenue Code of 1939:

SEC. 22. GROSS INCOME.

(a) *General Definition.*—“Gross income” includes gains, profits, and income derived from salaries, wages, or compensation for personal service, of whatever kind and in whatever form paid, or from professions, vocations, trades, businesses, commerce, or sales, or dealings in property, whether real or personal, growing out of ownership or use of or interest in such property; also from interest, rent, dividends, securities, or the transaction of any business carried on for gain or profit, or gains or profits and income derived from any source whatever. * * *

* * * * *

(26 U.S.C. 1952 ed., Sec. 22.)

SEC. 42 [as amended by Sec. 114, Revenue Act of 1941, c. 412, 55 Stat. 687]. PERIOD IN WHICH ITEMS OF GROSS INCOME INCLUDED.

(a) *General Rule.*—The amount of all items of gross income shall be included in gross income for the taxable year in which received by the taxpayer unless, under methods of accounting permitted under section 41, any such amounts are to be properly accounted for as of a different period. * * *

* * * * *

(26 U.S.C. 1952 ed., Sec. 42.)

Treasury Regulations 111, promulgated under the Internal Revenue Code of 1939:

Sec. 29.42-1. When Included in Gross Income.—

(a) *In general.*—Except as otherwise provided in section 42, gains, profits, and income are to be included in the gross income for the taxable year in which they are received by the taxpayer, unless they are included as of a different period in accordance with the approved method of accounting followed by him. * * * If a person sues in one year on a pecuniary claim or for property, and money or property is recovered on a judgment therefor in a later year, income realized in the later year, assuming that the money or property would have been income in the earlier year if then received. * * *

* * * * *

Sec. 29.42-2. Income Not Reduced to Possession.

—Income which is credited to the account of or set apart for a taxpayer and which may be drawn upon by him at any time is subject to tax for the year during which so credited or set apart, although not then actually reduced to possession. To constitute receipt in such a case the income must be credited or set apart to the taxpayer without any substantial limitation or restriction as to the time or manner of payment or condition upon which payment is to be made, and must be made available to him so that it may be drawn at any time, and its receipt brought within his own control and disposition. * * *

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Petitioner,
v.

COMMISSIONER OF INTERNAL REVENUE,
Respondent.

PETITIONER'S REPLY BRIEF

*Petition to Review a Decision of the Tax Court
of the United States*

FILED

APR 18 1955

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SUBJECT INDEX

	Page
I—Petitioner did not realize taxable income from the <i>Murray v. Wiley</i> litigation	1
II—If taxable at all, the full amount of the net rentals and interest credited to petitioner did not con- stitute taxable income in 1947	5
Conclusion	8

TABLE OF CASES

	Page
Caro v. Wollenberg, 83 Or. 311, 163 P. 94.....	5
Davis v. Penfield, 205 F. (2d) 798 (C.A. 5).....	4
Hilpert v. Commissioner, 151 F. (2d) 929 (C.A. 5).....	4
Investors Syndicate v. Smith, 105 F. (2d) 611 (C.A. 9).....	5
Parkford v. Commissioner, 133 F. (2d) 249 (C.A. 9), cert. den. 319 U.S. 741, 63 S. Ct. 1029, 87 L. Ed. 1698	7
Russell v. Southard, 12 How. 139, 13 L. Ed. 927.....	6
Tressler, S. B., T.C. Memo Docket Nos. 29044 and 35129 (1953) (Sec. 53.111 P.H. Memo T.C. 53- 353)	6

TEXTBOOKS

36 American Jurisprudence (Mortgages, Sec. 301), p. 841	6
59 Corpus Juris Secundum (Mortgages, Sec. 318), p. 427	6
2 Mertens, Law of Federal Income Taxation, Sec. 11.19, p. 79	3
Restatement of Agency (Vol. 1, Sec. 15, p. 23).....	6

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*Petition to Review a Decision of the Tax Court
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I.

**Petitioner did not realize taxable income
from the Murray v. Wiley litigation.**

Respondent attempts to sustain the decision of the Tax Court that petitioner realized taxable income from the *Murray v. Wiley* litigation on two theories: (1) that petitioner procured for himself "an economic benefit from the application of the credit" in the judicial accounting, and (2) that "the credit in the accounting

procedure utilized by the state court should be regarded as if the taxpayer had recovered a judgment for the rents and interest." (Resp. Br. pp. 12-13). Both these theories will not stand analysis.

Underlying the first proposition is the assumption that an economic benefit of substance equivalent to taxable income was realized. We do not understand respondent's argument to be that this result follows because *if* the form of the decree had not so recognized petitioner's position in equity, it might have been more costly for petitioner to redeem. We know of no authority for the creation of taxable income because in another form a transaction might have been less beneficial. The financial or economic benefit conferred (Resp. Br. p. 19) must then be the satisfaction of the rights of the defendants as determined by the Oregon Supreme Court. By constant repetition (Resp. Br. pp. 12, 13, 16, 17, 18, 21) respondent seeks to establish the fallacy that petitioner obtained satisfaction of some amount or something owed by him to the defendants. It is clear that the substance of the litigation was a determination of the rights of the parties in the property and its income. The fact that defendants were permitted to retain *all* of the earnings under a *ratio decidendi* which supported this holding by a finding of a judicially created "lien" in their favor did not create any debt "owing" by petitioner. Clearly then, if realities are to control and form be pierced to get at the real substance and real effect of what has been done (Resp. Br. p. 17), the most that can be deduced is that petitioner's property was freed from a "lien"—but an obligation not

owed by him and on which he had no personal liability of any kind.

The ultimate fact remains that the "credit" was not used to discharge or satisfy any indebtedness against the property which was a personal obligation of the petitioner. Therefore, as the cases cited in our main brief (pp. 22-23) hold, petitioner realized no taxable income by reason of the application of this credit. As is stated in 2 Mertens, Law of Federal Income Taxation, § 11.19, p. 79:

"The rule that cancellation of the indebtedness may constitute the realization of income has been held to be limited to cases involving the reduction of a *personal* liability. Thus, the reduction of a mortgage not assumed by the taxpayer or the reduction of a special assessment against land has been held not to result in the receipt of taxable income."

Respondent recognizes this rule of law but boldly states that "* * * this principle is not applicable here." However, respondent's argument in support of non-application of this long-settled rule is not convincing. In essence, the contention is made that the *Murray v. Wiley* litigation and accounting "* * * should be regarded as if the taxpayer had recovered a judgment for the rents and interest." (Resp. Br. p. 12). Also, it is stated this case "* * * more accurately and realistically [involves] the receipt of amounts owing by the mortgagees to the taxpayer (in effect received by the taxpayer through the accounting device as taxable rents and interest) and their application against the larger amount owing [sic] by the taxpayer to the mortgagees" (Resp. Br. p. 21). The misleading character of this last

statement is obvious, for in this case petitioner owed nothing whatsoever to the mortgagees.

Respondent's effort to twist the *Murray v. Wiley* litigation into an action at law by petitioner to recover rents and profits brings to mind a recent admonition by the Court of Appeals for the Fifth Circuit in *Davis v. Penfield*, 205 F. (2d) 798, 802, that “* * * strained and artificial constructions in tax cases of law or fact will be avoided * * *”.

Although unsupported by either reason or authority, respondent attempts to argue that the leading case in point on this problem, *Hilpert v. Commissioner*, 151 F. (2d) 929 (C.A. 5), “should not be followed, and that the dissenting view of Judge Hutcheson therein (p. 934) sustaining on principle the taxability of the credit of the mortgagor, is the correct view” (Resp. Br. p. 22). We will not prolong this brief by again discussing the *Hilpert* case (Pet. Br. pp. 23-25). We only point out that inasmuch as respondent failed to ask the United States Supreme Court to review the Fifth Circuit's decision, he is hardly in a position to urge this Court to disregard it. If the facts of that case create a distinction because of the hardships a different result might have produced for that taxpayer, they certainly created no greater equity than here where respondent's argument would crown petitioner's nine years of litigation to recover his property with confiscation of rentals he never received by pyramiding them in the high surtax year of 1947 and depriving him of the benefit of his accumulated depreciation for the same period, which of course can only be taken annually. (21 T.C. at p. 1062).

II.

If taxable at all, the full amount of the net rentals and interest credited to petitioner did not constitute taxable income in 1947.

On this alternative ground, respondent attempts to answer petitioner's argument by pointing out that the Watters group could not have collected the net rentals in the year 1942 and thereafter as agents for petitioner because the requisite element of consent to an agency relationship between the parties was absent (Resp. Br. p. 26).

This argument does not meet the issue here. As we pointed out in our opening brief, the 1942 decisions of the Oregon Supreme Court so conclusively established petitioner's right to receive or be credited with the net rentals from the Murray Building that the Watters group who were adjudged to be mortgagees in possession could thereafter have no valid claim of right to such receipts. As respondent must concede (Resp. Br. p. 26), the mortgagees in possession were required by Oregon law to apply the net receipts against their lien indebtedness (see *Caro v. Wollenberg*, 83 Or. 311, 163 P. 94, and *Investors Syndicate v. Smith*, 105 F. (2d) 611 (C.A. 9)). We did not argue that the mortgagees in possession were agents by virtue of contract, as respondent mistakenly assumes, but that they were "in the position of agents for petitioner" under a court imposed duty to account to him for the funds received (see Pet. Br. p. 29).

Perhaps it would also have been accurate to have termed the mortgagees in possession as quasi or constructive trustees for petitioner (see 59 Corpus Juris Secundum (Mortgages, Sec. 318) p. 427; 36 American Jurisprudence (Mortgages, Sec. 301), p. 841). In *Russell v. Southard*, 12 How. 139, 155, 13 L. Ed. 927, the United States Supreme Court stated: "A mortgagee in possession is deemed by a court of equity a trustee." As pointed out by the Restatement of Agency (Vol. 1, Sec. 15, p. 23), an agency relationship differs from a trust relationship since the beneficiary may not have created or consented to the trust.

However, irrespective of whether the mortgagees in possession were "agents" of petitioner or merely "quasi or constructive trustees" under a duty to apply receipts to the satisfaction of their liens against petitioner's property, their receipt of funds was equivalent to receipt by petitioner. This must particularly be true if the law required the mortgagees in possession to credit the receipts upon amounts which respondent says in the first facet of his argument were owed to them by petitioner. If the receipts were in fact taxable income, they were taxable to petitioner in the years of collection and not all in one lump sum in 1947.

So in *S. B. Tressler*, T.C. Memo Docket Nos. 29044 and 35129 (1953) (Sec. 53.111 P.H. Memo T.C. 53-353) it was held that receipts from petitioner's property collected by a receiver in possession and applied upon the taxpayer's obligations to his wife were taxable in the year of collection.

The principle was also followed by this Court in *Parkford v. Commissioner*, 133 F. (2d) 249 (C.A. 9), cert. den. 319 U.S. 741, 63 S. Ct. 1029, 87 L. Ed. 1698, where money received by a trustee in bankruptcy on account of services previously rendered by the bankrupt taxpayer was held to be taxable income of the taxpayer in the year of receipt by the trustee in bankruptcy.

Respondent also argues that in any event no income accrued to petitioner until 1947 because of the contingency of his paying the balance found to be due to the mortgagees in possession under the accounting. He states (Resp. Br. p. 24) that "the actual credit itself was contingent upon the payment of the balance owing the mortgagees." From this it may be inferred that if petitioner had not redeemed the defendants would not have retained the amount of their "credit". Nothing in the record supports this inference. It is clear that defendants in all events were held to be entitled to retain the appropriated earnings. This result would not be affected by the contingency of whether petitioner would or would not redeem by making payment of \$10,640.31. To analogize that petitioner in 1947 acquired the "right to demand payment of the rents from the property and convert them to his own use" (Resp. Br. p. 27) implies an option which petitioner never had. If, as is the fact, petitioner had no right to receive the rentals because the law required the mortgagees to apply them as received to an obligation which respondent says petitioner owed to them, it is axiomatic that such annual satisfaction of petitioner's debt by moneys which would have been

taxable if paid directly to him constituted his income as received and applied by the mortgagees.

Thus, petitioner respectfully submits that while there was uncertainty as to the nature of the receipts collected prior to 1942 by the mortgagees for application to the extinguishment of liens against his property or petitioner's debt, if such it be, the substantial contingency as to petitioner's right to be credited with such income was completely removed by the decisions of the Oregon Supreme Court in 1942.

Thereafter, if the net receipts of the building constituted taxable income to petitioner, they were taxable to him in the year of receipt by the mortgagees in possession.

CONCLUSION

The Tax Court of the United States erred and its decision should be reversed by this Court.

Respectfully submitted,

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Attorneys for Petitioner.

United States
COURT OF APPEALS
for the Ninth Circuit

E. J. MURRAY,

Petitioner,

v.

COMMISSIONER OF INTERNAL REVENUE,

Respondent.

PETITION FOR REHEARING

*Petition to Review a Decision of the Tax Court of the
United States*

FILED

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PETITION FOR REHEARING

*Petition to Review a Decision of the Tax Court of the
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Petitioner respectfully requests the court to grant a rehearing of its decision of March 30, 1956, in which the court affirmed the Tax Court of the United States. Because of the apparent conflict between the court's opinion in this case and recent decisions of other divisions of this court, it would be very desirable to have this rehearing before the court *en banc*.

Petitioner represents that a rehearing is necessary in the interests of justice for the following reasons:

1. The opinion of the court on page 4 contains the statement "that there is nothing in the *Hilpert* case which calls for a contrary conclusion." The case referred to, upon which petitioner relied, is *Hilpert v. Commissioner*, 151 F. (2d) 929. Supporting the quoted statement there appears in the opinion Footnote 2, which summarizes the facts of the *Hilpert* case and contains the following statement of the holding in that case: "The effort of the Commissioner then to charge Hilpert with a capital gain measured by the difference between the sum of \$54,364.67 and \$10,635.33 and the basis, or March, 1913, value of the property, was properly overturned."

The quoted summary indicates the finding of the court to be that the *Hilpert* case did not involve the identical issue here presented, to wit, whether or not the taxpayer realized *ordinary income attributable to accumulated rentals credited* to him in the accounting. This issue in the *Hilpert* case was identical with the issue here before the court. In the decision of the Tax Court in the *Hilpert* case, 4 TC 475, appears the following statement:

"In the deficiency notice respondent determined 'that the amount of \$10,635.33, representing net rentals received by the mortgagee on Lot 4, Block 29, Reid's Addition to Orlando, Florida, and applied as a credit on your mortgage during the taxable year, constitutes ordinary income.' He also computed gain from the sale of the property at \$55,764.12 by deducting from a 'sale price' of \$71,-432.37 an adjusted basis of \$15,668.25."

In the opinion of the Tax Court at page 477, in discussing the credit attributable to accumulated rentals,

that court stated:

"This item is additional to and not in substitution of any part of the capital gain already dealt with . . . We conclude that petitioners' tax should be computed on \$55,764.12 as long term capital gain and on \$10,635.33 as ordinary income."

The opinion of the Court of Appeals for the Fifth Circuit overruled in the entirety both portions of the deficiency sustained by the Tax Court. The last paragraph of the Circuit Court's opinion deals specifically with the item resulting from the rental accruals applied as a credit and attempted to be taxed as *ordinary income*.

Perhaps the failure of the Court of Appeals for the Fifth Circuit to clearly identify the issues in its opinion misled this court into an erroneous statement of the holding of the *Hilpert* case. The sentences quoted above from the Tax Court's opinion in that case we believe clearly identify one of the principal issues in that case to be the same as that presented here. Petitioner believes that the presence of the identical issue in both cases would appear to call for an opinion on this appeal which either follows or declines to follow the *Hilpert* case.

Petitioner suggests that on re-examination of the *Hilpert* decision this court should find that the Fifth Circuit was "plainly correct" on this issue and that, as stated in that decision, "the appetite for taxes is not so voracious, the commands of the statute are not so inexorable, as to require the doing of an injustice when there is open another course that is more fully consonant with law and reason and which course, if followed, will

lead neither to evasion by the taxpayer nor extortion by the Government."

2. The court in its opinion has found taxable income from the "economic benefit which petitioner realized" and justifies its conclusion by reference to *Commissioner v. Smith*, 324 U.S. 177; *Helvering v. Bruun*, 309 U.S. 461; *Helvering v. Horst*, 311 U.S. 112. The result reached by the court is an extension of the scope of Section 22(a) of the Revenue Act substantially beyond any area in which the cited or other decisions have previously extended it.

The quoted language from the *Smith* case to the effect that Section 22(a) is broad enough to include "any economic or financial benefit conferred on the employee as compensation" has never heretofore been interpreted to find income from naked economic benefit without the additional incident of compensation (*Smith*), a transaction entered into for profit (*Bruun*), or an attempt at tax evasion (*Horst*).

The most recent pronouncement of the Supreme Court in *Commissioner v. Glenshaw Glass Company*, 348 U.S. 426, holding that Section 22(a) is broad enough to include punitive damages as taxable income, describes the area of application of the statute as follows:

"Here we have instances of undeniable accession to wealth, clearly realized, and over which the taxpayers have complete dominion."

Footnote 8 of the same opinion indicates the belief of the court that recoveries for personal injuries are

nontaxable on the theory that they are "by definition compensatory only" and that they "roughly correspond to a return of capital."

The holding of this case appears to constitute an extension of the concept of taxable gross income to any possible situation where the taxpayer has an intangible benefit not otherwise clearly identifiable as an income item. A natural construction of the court's decision would be contrary to the Supreme Court's statement on the tax-free character of compensation for personal injury. Under the present circumstances it impliedly overrules each of the long-standing authorities cited in petitioner's brief on pages 22 and 23, and upon which the Fifth Circuit relied in the *Hilpert* case. These authorities hold that the reduction, satisfaction or cancellation of an indebtedness or obligation, which confers a benefit in that it releases encumbrances against the property of the owner, does not result in taxable income to him, where such encumbrances are not a personal obligation.

If Section 22(a) does not extend to items which "roughly correspond to a return of capital," i.e., recoveries for personal injuries which obviously affect property which has no tax base, it is difficult for petitioner to see why the credit in the accounting proceeding, through which the court attempted to compensate the petitioner for his loss of the use of capital during the years in which he was out of possession of the property, is not a similar item.

3. The far-reaching impact of the rule announced by the court justifies further analysis of the sources

from which it stems. The conclusion that the finding of a benefit is enough to generate taxable income would necessarily imply that such would have been the result in this case if the taxpayer had not exercised his option to redeem because obviously the benefit was there whether or not he took advantage of it.

Hypothetically, it might be assumed that a successful plaintiff in a contract action whose net judgment reflects the allowance of a counterclaim has taxable income to the extent of the benefit of such allowance. A further hypothetical would generate taxable income where a substantial increment to the value of property is realized because of adjoining improvements which are placed by the city or which are attributable to the improvement of their properties by adjoining owners.

4. The court's conclusion with respect to petitioner's alternate contention, which was that if any income was received it would be taxable to petitioner in each of the years commencing with 1942, rather than all in 1947, is contrary to decisions rendered by this court in cases decided between the hearing in this case and the rendition of the opinion.

There does not seem to be any dispute that under the decisions of the Oregon Supreme Court involved in this action the defendants, as stated by that court, "had been and were mortgagees in possession." Further, there seems to be no controversy that as such they were not holding the moneys under a claim of right but solely for the purpose of application of the funds upon encumbrances which the court found existed against the

property in 1942. From this petitioner argued that under the principles of law enunciated in the cases set forth on page 29 of his brief the receipt of the funds by such judicial custodians or agents constituted receipt by the petitioner. One of the cases so cited was *S. B. Tressler*. On November 10, 1955, after the hearing in this case, this court sustained the decision of the Tax Court in the *Tressler* case. In that decision (228 F. (2d) 356) it described the taxpayer's position to be one of "avoiding tax liability on income actually not in hand received but held by the Florida courts to be his although owing to others under legal obligation." In a footnote to this quoted language the court further stated (p. 359):

"The fact that the taxpayer did not actually receive any of the revenue collected by the receiver from the operation of the apartment properties and paid to his wife, pursuant to the orders of the Florida court, does not relieve him from liability for tax thereon. The taxpayer reported his income on the cash receipts and disbursements basis and is, therefore, taxable on income when credited to him."

Obviously, the quoted language indicates an almost identical situation to the facts here, and the same rule should be applied in this case.

A further recent expression of this substantive rule is found in *Dally v. Commissioner*, 227 F. (2d) 724, decided November 21, 1955. Here this court said (p. 727):

"Sums payable because earned are not rendered contingent and non-accrued by the mere fact that some additional acts are necessary in order to make the collection, even if these acts must be performed later by third persons or by the government."

Petitioner does not deny that, as stated by this court on page 8 of its opinion, "until the accounting was completed on February 28, 1947, and petitioner paid the amount then for the first time ascertained, he was at liberty either to redeem the property . . . , or, if the sum arrived at did not suit him, to walk away and leave the property without redemption." The conclusion that by electing to redeem he would "thus reap the fruits of his litigation" is not factually correct as at all times since the 1942 decision the income from the property was held solely for application on the encumbrances against the property. Each of the intervening years was a period in which partial fruits of the litigation were reaped. Regardless of the action taken by petitioner in 1947, the requirement that rentals be applied to the reduction of the encumbrance against the property existed by virtue of the 1942 decision. The court's conclusion here appears to be the novel one that the taxpayer's affirmative action in electing to redeem was the thing which gave rise to taxable income. It is axiomatic that a taxpayer has no right to elect as to whether he will receive income otherwise subject to his dominion.

CONCLUSION

Petitioner respectfully suggests that the court should re-examine its analysis of the *Hilpert* case and follow that decision or, in the alternative, specifically decline to follow that case and analyze the authorities from which the conclusion is drawn that a naked benefit generates taxable income. Petitioner believes that the prin-

ciples enunciated in the opinion with respect to petitioner's alternative contention are contrary to the recent decisions of this court in the matters above referred to and that the opinion should be reviewed for the purpose of enunciating uniform principles applicable to the administration of the income tax statute.

Petitioner respectfully submits that the court was in error in affirming the judgment of the Tax Court and that this petition for a rehearing of the case *en banc* should be granted.

Respectfully submitted,

FREDERICK H. TORP,
CLEVELAND C. CORY,
Attorneys for Petitioner.

I hereby certify that in my judgment the within petition for rehearing is well founded and is not interposed for delay.

FREDERICK H. TORP,
Attorney for Petitioner.

No. 14581

United States
Court of Appeals
For the Ninth Circuit.

CLIFFORD G. MARTIN, Doing Business as
Martin Music Company,
Appellant,

vs.

UNITED STATES OF AMERICA,
Appellee.

Transcript of Record

Appeal from the United States District Court for the
District of Oregon

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INDEX

[Clerk's Note: When deemed likely to be of an important nature, errors or doubtful matters appearing in the original certified record are printed literally in italic; and, likewise, cancelled matter appearing in the original certified record is printed and cancelled herein accordingly. When possible, an omission from the text is indicated by printing in italic the two words between which the omission seems to occur.]

	PAGE
Answer to Amended Complaint.....	21
Bond for Costs on Appeal.....	37
Certificate of Clerk.....	39
Complaint, Amended	3
Findings of Fact and Conclusions of Law.....	30
Judgment	35
Motion to Dismiss Complaint on Ground That Complaint Fails to State Cause of Action on Which Relief Can Be Granted.....	10
Names and Addresses of Attorneys.....	1
Notice of Appeal.....	36
Oral Opinion	29
Order Extending Time for Filing Record on Appeal	39
Order Fixing Time for Filing Bond on Appeal.	37
Pre-Trial Order	22
Statement of Points on Which Appellant In- tends to Rely.....	42

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In the United States District Court
for the District of Oregon

Civil No. 6616

UNITED STATES OF AMERICA,

Plaintiff,

vs.

CLIFFORD G. MARTIN, dba MARTIN MUSIC
COMPANY,

Defendant.

AMENDED COMPLAINT

Plaintiff, by leave of Court first had and obtained, files this its amended complaint, and alleges:

I.

This is a civil action brought to recover damages for violation by Defendant of Ceiling Price Regulation No. 34 (16 F.R. 4446, as amended, issued pursuant to the Defense Production Act of 1950, (Public Law 69, 82nd Congress, 64 Stat. 798, Public Law 96, 82nd Congress), as amended, and for an injunction or other order restraining the Defendant from further violations. Jurisdiction of the suit is vested in this Court by Section 798(b) of the Defense Production Act of 1950, as amended, and also by Section 1345, Title 28, U. S. Code.

II.

Section 409(a) of the Defense Production Act of 1950, as amended, provide as follows:

“Whenever in the judgment of the President any

person has engaged or is about to engage in any acts or practices which constitute or will constitute a violation of any provision of section 405 of this title, he may make application to any district court of the United States or any United States court of any territory or other place subject to the jurisdiction of the United States for an order enjoining such acts or practices, or for an order enforcing compliance with such provision, and upon a showing by the President that such person has engaged or is about to engage in any such acts or practices a permanent or temporary injunction, restraining order, or other order, with or without such injunction or restraining order, shall be granted without bond."

Section 409(c) of the Defense Production Act of 1950, as amended, provides as follows:

"If any person selling any material or service violates a regulation or order prescribing a ceiling or ceilings, the person who buys such material or service for use or consumption other than in the course of trade or business may, within one year from the date of the occurrence of the violation, except as hereinafter provided, bring an action against the seller on account of the overcharge. In any action under this subsection, the seller shall be liable for reasonable attorney's fees and costs as determined by the court, plus whichever of the following sums is greater; (1) such amount not more than three times the amount of the overcharge, or the overcharges, upon which the action is based as

the court in its discretion may determine, or, (2) an amount not less than \$25.00 nor more than \$50.00 as the court in its discretion may determine: Provided, however, That such amount shall be the amount of the overcharge or overcharges if the defendant proves that the violation of the regulation or order in question was neither willful nor the result of failure to take practicable precautions against the occurrence of the violation. For the purposes of this section the word "overcharge" shall mean the amount by which the consideration exceeds the applicable ceiling. If any person selling any material or service violates a regulation or order prescribing a ceiling or ceilings and the buyer either fails to institute an action under this subsection within thirty days from the date of the occurrence of the violation or is not entitled for any reason to bring the action, the President may institute such action on behalf of the United States within such one-year period, or compromise with the seller the liability which might be assessed against the seller in such an action."

III.

Ceiling Price Regulation No. 34, aforesaid, effective May 16, 1951, was issued by the Director of Price Stabilization pursuant to the aforesaid Defense Production Act of 1950, as amended, Executive Order 10161 (15 F.R. 6105) and Economic Stabilization Agency Order No. 2 (16 F.R. 738). This regulation fixed the ceiling price for services including the furnishing of music by a means of

coin operated machines and was in full force and effect at all times during the period of one year prior to the filing.

IV.

Defendant is an individual doing business under the assumed name of Martin Music Company in the State of Oregon and in the State of California with his principal offices in the City of Grants Pass, in the County of Josephine and the State of Oregon, within the District of Oregon and the jurisdiction of this Court, and was and is engaged in the furnishing of music by means of coin operated machines to purchasers in said states and district.

V.

Under said Ceiling Price Regulation 34, Defendant's ceiling prices for the sale of such services, the furnishing of music by means of coin operated machines, was the highest price charged for such services during the base period from December 19, 1950, to January 25, 1951, inclusive, to purchasers of the same class, and Defendant's ceiling price was fixed by said regulation in the sum of five cents for the playing of each record in such coin operated machines.

VI.

Defendant during the period from September 3, 1951, to the date of the filing of this suit sold such services at a price of ten cents and three for twenty-five cents for the playing of records in coin operated machines located in various establishments in

the States of Oregon and California, and charged and received prices for the same over the lawful ceiling price aforesaid in the total amount of \$22,-841.25.

VII.

All of the transactions described herein occurred within one year of the filing of the Complaint in this cause.

VIII.

All of the transactions described herein were other than in the course of purchaser's trade or business, and thirty days have elapsed since the occurrence of a greater portion of the violations described herein and no suit for damages has been filed by any purchaser.

IX.

None of the transactions complained of herein arose because Defendant acted upon and in accordance with the written advice and instructions of the President of the United States or any official or employee authorized to act for him.

X.

None of the transactions described herein arose out of the sale of any material or service to any agency of the Government pursuant to the lowest bid made in response to an invitation for competitive bids.

XI.

The overcharges aforesaid were willful and were the result of failure to take practicable precaution against the occurrence of violations.

XII.

The violations are of a continuing nature and the Defendant was, and is, charging such prices in excess of ceilings at the date of the filing of this suit although he has been repeatedly warned to reduce such prices and Defendant will continue to violate the act and the regulation unless he is restrained by this Court.

XIII.

The United States brings this action in its sovereign capacity to accomplish the purposes of the Defense Production Act of 1950, as amended, by enforcing necessary price controls designated to protect the national economy against future loss of needed purchasing power and to prevent a future collapse of values. Unless Defendant and all persons in active concert or participation with Defendant are enjoined from further selling and delivering services at prices in excess of applicable ceilings established by the regulation, the United States of America, Plaintiff herein, will suffer immediate and irreparable injury for which it has no adequate remedy at law.

Wherefore, Plaintiff, the United States of America, prays:

1. That this Court, pending the final determination of this cause, issue a preliminary injunction restraining and enjoining Defendant, his agents, servants, employees and all other persons in active concert or participation with Defendant and each

of them from directly or indirectly selling or offering, soliciting or agreeing to sell, services in the furnishing of music by coin operated machines at prices in excess of the applicable maximum prices fixed by the ceiling price regulations as heretofore or hereafter amended, or under any price stabilization regulation hereafter issued which establishes maximum prices for such services.

2. That this Court, upon final determination of this cause, issue a permanent injunction restraining and enjoining Defendant, his agents, servants, employees and all persons in active concert or participation with Defendant, and each of them, in the manner and form aforesaid.
3. That Plaintiff be given judgment against Defendant in the sum of \$68,523.75, together with reasonable attorney fees and costs.
4. That this Court grant such other, further and different relief as may be just and equitable.

HENRY L. HESS,
United States Attorney.

/s/ ASHLEY GREENE,
Special Assistant United
States Attorney.

[Endorsed]: Filed December 1, 1952.

[Title of District Court and Cause.]

MOTION TO DISMISS COMPLAINT ON
GROUND THAT COMPLAINT FAILS TO
STATE CAUSE OF ACTION ON WHICH
RELIEF CAN BE GRANTED

To the Honorable District Court of the United States, for the District of Oregon:

The defendant, Clifford G. Martin, doing business as Martin Music Company, moves the Court to dismiss the above-entitled action because the complaint fails to state a claim or cause of action against the defendant herein named, upon which the relief prayed for can be granted.

The reason why the complaint fails to state a claim against the defendant is because the Office of Price Stabilization has no jurisdiction over the defendant.

The said defendant is not engaged in any business nor does he furnish any goods or render any service that is in contemplation of the Defense Production Act of 1950, as amended. He is exempt under the said act for the reason that the services rendered by him are strictly within the exemptions provided for persons who are engaged in providing entertainment.

That if the injunction prayed for in said complaint is granted, defendant would be forced to do business below cost, and the Office of Price Stabilization is expressly prohibited by the Defense Pro-

duction Act from administering the said act so that any person is required to operate at less than his cost of doing business, or at less than an amount which will return his normal profit earned during the lease period provided in said act.

That the enforcement of the alleged ceiling price by the Office of Price Stabilization would require defendant to operate and do business at less than the cost thereof in violation of the expresed intent of the Defense Production Act of 1950 as amended, and would be a deprivation of property without due process of law.

That the alleged ceiling price issued and attempted to be imposed by the Office of Price Stabilization is improper, illegal and void, in that it is in violation of Section 402, Subsection b2 of the Defense Production Act.

That the operation of a coin operated phonograph is purely a luxury business having no effect whatever on inflation, defense appropriations, the cost of living for workers or other consumers; nor does such operation of such phonographs affect in any way the several purposes or items set forth in Section 401 of said Defense Production Act, which section sets out the intent of Congress as to what was the purpose and intent in the passage of said act.

That the enforcement of said regulation and alleged ceiling price is and would be a violation of that portion of said Section 401 of said Defense

Production Act that provides that "it is the intent of Congress that the authority conferred by this title (Title IV), shall be exercised in accordance with the policies set forth in Section 2 of this Act, and in particular with full consideration and emphasis, so far as practicable, on the maintenance and furtherance of the American System of competitive enterprise, including independent small-business enterprises."

That the imposition and enforcement of this administrative ruling is discriminatory in that all other segments of the music business have been decontrolled and exempted by general overruling orders.

That the imposition and enforcement of said ceiling price regulation is unfair, unjust, unconstitutional and a deprivation of property without due process of law in that such phonographs cannot be operated at a profit at five cents per play and the ruling will therefore render such equipment valueless and unusable.

That the imposition of such an administrative ruling will prevent defendant from earning a sufficient income to pay the skilled mechanics and electricians the wage scale their union contracts provide for.

That the refusal of the Office of Price Stabilization to permit defendant and other phonograph operators from charging ten cents per play, three for twenty-five cents, is arbitrary, unjust, capri-

cious and unfair in that the charge of five cents per play was established over twenty years ago when the phonograph and equipment necessary for their operation cost but a small fraction of their present cost.

That the administrative ruling herein complained of is in violation of the Defense Production Act in that it is not fair or equitable and is not necessary to effectuate purposes of Title IV of said act or any title or part thereof, and said regulation was not accompanied by a statement of the consideration involved in its issuance as required by said act.

That the enforcement of said administrative ruling is and would be in contravention of Section 402, Subsection (g), in that it will operate to compel changes in the business practices and cost practices and methods of the automatic phonograph industry and such regulation is unnecessary to prevent circumvention or evasion of any regulation, order or requirement of Title IV of said Act.

That the enforcement of said administrative ruling and regulation would be and is in direct contravention of Section 402, Subsection (k) of said act, in that the enforcement of said regulation would deny to defendant his customary percentage margins over costs of the service for the base or test period May 24, 1950 to June 24, 1950.

The defendant alleges that the business of operating juke boxes is not a service business and hence

is not covered by the Act. The Defense Production Act of 1950, 50 U.S.C.A. App. Sec. 2102 (b)1 grants the President the right to issue regulations and orders establishing a ceiling or ceilings on the prices and so forth received for the sale or delivery of any "material or service."

"To the extent that the objectives of this title (Sections 2101-2110 of this Appendix) cannot be attained by action under subsection (a), the President may issue regulations and orders establishing a ceiling or ceilings on the price, rental, commission, margin, rate, fee, charge, or allowance paid or received on the sale or deliver or the purchase or receipt, by or to any person, of any material or service, and at the same time shall issue regulations and orders stabilizing wages, salaries, and other compensation in accordance with the provisions of this subsection." 50 U.S.C.A. Appendix Sec. 2102 (b) (1).

The defendant claims that his business is not commonly known as a service business and since the word services is not defined by the Act, it must be assumed that Congress intended its normal meaning. Rodenbough against United States, 25 Fed. 13. There are not many cases which define what a juke box business is. However, in the case of Fox vs. Galloway, 148 Pac. (2d) 922, an Oregon case decided May 9, 1944, the Oregon Supreme Court studied the problem quite thoroughly and decided that a juke box was not a service business. The Statute in this particular case provided that a privilege tax would

be imposed upon coin in the slot mechanical games and devices used to provide amusement as distinguished from coin-operated devices maintained for furnishing service of a public utility or any device which is designed and used strictly as a vendor of merchandise or service and without the elements of chance or prize involved. The Court in its opinion at page 928 stated further:

"Mechanical devices on which the tax is imposed are those which provide entertainment by means of games or music. They do not vend anything that could be considered tangible. It is obvious that there is a substantial difference between providing entertainment and selling merchandise or essential services. And that difference is reasonable ground for the classification made by the legislature."

This same general attitude is taken by the other Courts which have considered this problem. The Courts have uniformly held, we believe, that wherever the question arose, a juke box was not considered a service-vending machine and the operator of the juke box was not considered to be engaged in service business. The other cases which support our view are: *Sheppard vs. Giebel*, 110 S.W. 2d. 166; *Seeburg Piano Company vs. United States*, 62 Ct. Cl. 281. We also note that the United States in its Internal Revenue Code, 26 U.S.C.A. 3267 differentiates between the vending machines and gaming or amusement machines under the general theory that vending machines which dispense merchandise or services are not to be taxed under this Section.

“Definition. As used in this Part, the term ‘coin-operated amusement and gaming devices’ means (1) any amusement or music machine operated by means of the insertion of a coin, token, or similar object and (2) so-called ‘slot’ machines which operate by means of insertion of a coin, token, or similar object and which, by application of the element of chance, may deliver, or entitle the person playing or operating the machine to receive cash, premium, merchandise, or tokens. The term does not include bona fide vending machines in which are not incorporated gaming or amusement features. For the purpose of this section, a vending machine operated by means of the insertion of a 1 cent coin, which, when it dispense a prize, never dispenses a prize of a retail value of, or entitles a person to receive a prize of a retail value of, more than 5 cents, and if the only prize dispensed is merchandise and not cash or tokens shall be classified under clause (1) and not under clause (2).” 26 U.S.C.A. 3267 (b).

We have looked quite diligently for further cases on this subject. However, the question as to whether or not a juke box is a service machine does not seem to have arisen very much. In the cases where it has arisen, however, the Courts and the legislatures have almost uniformly differentiated between service-vending machines and amusement-vending machines. We believe that this is the distinction intended by Congress, since the Defense Production Act, in its price control provisions strikes only at such prices as are considered to be for necessities as distinguished from luxuries. The price control, of course,

is also designed to cut down the cost of the Government in obtaining the goods it needs to carry on its defense and police action functions. However, we cannot see where the price of a juke box will seriously impede the national defense effort nor will it withdraw critical materials from the defense effort. We also doubt that it would increase the cost of living and deprive anyone on a fixed income of any of his or her purchasing power. We also note that by a General Overriding Regulation 14 issued by the Office of Price Stabilization on July 9, 1951 the Government excepted from the provisions of the service regulations, among other people, those engaged in the business of entertainment as well as musicians. We feel that since the Government has decided that entertainers and musicians are exempt from the regulation, that there should be no particular reason for retaining controls over juke box operators. It would seem to put those people who operate a juke box business at a serious disadvantage. However, we again repeat that it is our principal contention that juke boxes are exempted from the operation of the Act as they are not a service.

It is further contended that this defendant has been granted immunity under the provisions of Section 705 (b) of said Act, in that after a claim of the right not to be required to give evidence or information that would be incriminating, said defendant was required to give such evidence and information. In this connection, it is to be noted that the section quoted gives blanket immunity to such cases.

In dealing with a similar provision in the Interstate Commerce Act, the Supreme Court in Brown vs. Walker, 161 U. S. 591 16 S. Ct. 644, 40 Lawyers Ed. 819, stated that the immunity goes to all things covered by the act. Justice Brown, delivering the majority opinion, said:

"The act in question contains no suggestion that it is to be applied only to the Federal courts. It declares broadly that 'no person shall be excused from attending and testifying * * * before the Interstate Commerce Commission * * * on the ground * * * that the testimony * * * required of him may tend to incriminate him, etc. But no person shall be prosecuted or subjected to any penalty or forfeiture for or on account of any transaction, matter, or thing concerning which he may testify,' etc. It is not that he shall not be prosecuted for or on account of any crime concerning which he may testify, which might possibly be urged to apply only to crimes under the Federal law and not to crimes, such as the passing of counterfeit money, etc., which are also cognizable under state laws; but the immunity extends to any transaction, matter, or thing concerning which he may testify, which clearly indicates that the immunity is intended to be general and to be applicable whenever and in whatever court such prosecution may be had."

We believe that the Supreme Court's statement will include anything. However, we note further that Black's Law Dictionary, 3rd Edition, defines a penalty, among other things, as "money recoverable

by virtue of a statute imposing a payment by way of punishment" citing State vs. Franklin, 63 Utah 442; 226 Pac. 674 at 676. In that case the Supreme Court of Utah went to great length to define a penalty and finally quoted 6 Words and Phrases, page 5273 as follows:

"Punishment under a statute by fine or imprisonment, or both, is not a penalty, within the legal definition of that term. A penalty is a sum of money which the law exacts the payment of by way of punishment for doing some act which is prohibited, or omitting to do some act which is required to be done. A fine is a sum of money exacted of a person guilty of a misdemeanor or crime, the amount of which may be fixed by law, or left in the discretion of the court. Imprisonment is not in any legal sense a penalty. Village of Lancaster vs. Richardson (N.Y.) 4 Lans. 136, 139."

This motion is made upon the further ground that on December 1, 1952, by General Overriding Regulation 5, Revision 1, Amendment 10, the Office of Price Stabilization completely removed the business of coin operated amusement machines, including phonographs, from the operation of the Defense Production Act of 1950, as amended. The consideration for said regulation, as stated by the Director of Price Stabilization was that sales of these machines are not significant in the defense program and they do not enter into the cost of living of the American family, and that price control over this industry was extremely burdensome and did not affect the

price control program, and the removal therefrom would not enter into the cost of living of the American family. Reference is hereby made to said General Overriding Regulation 5, Revision 1, Amendment 10, and by such reference said regulation is incorporated herein the same as though set forth in full.

We therefore believe that defendant's motion to dismiss the complaint should be granted on either of the two grounds: First, that a juke box business is not a service business and hence is not covered by the Act, or that if a juke box business is covered by the Act, this defendant has been granted immunity by the Congressional enactment of a Statute designed to protect citizens against the violation of their rights under the 4th and 5th Amendments to the Constitution.

A memorandum of points and authorities, marked "Exhibit A" is attached hereto, and is made a part of this motion as though set out in full herein.

Wherefore, defendant prays that the court dismiss the complaint, and for such other relief as to the court might seem meet and proper in the premises.

/s/ HARRISON W. CALL,
Attorney for Defendant.

[Endorsed]: Filed January 15, 1953.

[Title of District Court and Cause.]

ANSWER

Comes Now Defendant above named and answering plaintiff's Amended Complaint on file herein, admits, denies, and alleges as follows:

I.

Admits the allegations contained in paragraphs I, II, IV, IX and X.

II.

Denies the allegations contained in paragraphs III, V, VI, VII, VIII, XI, XII, and XIII.

III.

As and for a further and separate defense, defendant alleges that at no time mentioned in said complaint, was said plaintiff or any of its officials, servants or agents authorized or empowered by said Defense Production Act of 1950, as amended, or by any Act or statute, to establish a ceiling price for the services rendered by said defendant. Defendant further alleges that plaintiff, through its officials, agents, and servants has failed, neglected, and refused to conform to or abide by the provisions of said Defense Production Act of 1950, as amended, in promulgating its said administrative regulations, which it alleges applies to defendant.

In this connection said defendant further alleges that at no time mentioned in this complaint was said defendant engaged in any business or furnished any goods or rendered any services that are or were

in any way in contemplation of the Defense Production Act of 1950, as amended, and reference is hereby made to said Act, as amended, and by such reference the said Act is hereby pleaded the same as though set forth herein at length. Defendant further alleges that said Act was intended to and did apply only to items of merchandise and services and articles of commerce which are connected with or have an influence upon the National Defense or national security or necessary in the development and maintenance of the military and economic strength of the United States.

Wherefore, defendant prays plaintiff take nothing by its complaint and that said defendant may be awarded his costs of suit herein.

/s/ HARRISON W. CALL,
Attorney for Defendant.

[Endorsed]: Filed February 4, 1954.

[Title of District Court and Cause.]

PRE-TRIAL ORDER

This matter came on for pre-trial conference on the 15th day of May, 1953, before the Honorable Gus J. Solomon, Judge of the above-entitled Court, plaintiff appearing by Willis A. West, Special Assistant United States Attorney for the District of Oregon, and defendant appearing by Harrison W. Call.

Admitted Facts

I.

That this is a civil action brought to recover damages for violation by defendant of Ceiling Price Regulation No. 34 (16 F.R. 4446), as amended, issued pursuant to the Defense Production Act of 1950 (Public Law 69, 82nd Congress, 64 Stat. 798, Public Law 96, 82nd Congress), as amended. Jurisdiction of the suit is vested in this Court by Section 798(b) of the Defense Production Act of 1950, as amended, and also by Section 1345, Title 28, United States Code.

II.

That Section 409(c) of the Defense Production Act of 1950, as amended, provides that if any person selling any material or service violates a regulation or order prescribing a ceiling or ceilings, the person why buys such material or service for use or consumption, other than in the course of trade or business, may within one year from the date of the occurrence of the violation, except as provided in the section, bring an action against the seller on account of the overcharge and the seller shall be liable for reasonable attorney's fees and costs plus whichever sum is greater an amount not more than three times the amount of the overcharge or the overcharges upon which the action is based or an amount not less than \$25.00 nor more than \$50.00 as the Court in its discretion may determine, provided that the amount shall be the amount of the overcharge or overcharges if the defendant proves that the violation was

neither willful nor the result of failure to take practicable precautions against the occurrence of the violation. The section further provides that if the buyer fails to institute an action within thirty days from the date of the occurrence of the violation or is not entitled for any reason to bring the action, the President may institute such action on behalf of the United States. The section defines overcharge as the amount by which the consideration exceeds the applicable price.

III.

Ceiling Price Regulation No. 34, aforesaid, effective May 16, 1951, was issued by the Director of Price Stabilization pursuant to the aforesaid Defense Production Act of 1950, as amended, Executive Order 10161 (15 F.R. 6105) and Economic Stabilization Agency Order No. 2 (16 F.R. 730). That said regulation was in full force and effect at all times from September 3, 1951, to the 1st day of December, 1952.

IV.

That defendant is an individual doing business under the assumed name of Martin Music Company in the State of Oregon and in the State of California, with his principal offices in the City of Grants Pass, in the County of Josephine and the State of Oregon, within the District of Oregon and the jurisdiction of this Court, and was and is engaged in the furnishing of music by means of coin operated machines to purchasers in said states and district.

V.

That during the base period December 19, 1950, to January 25, 1951, inclusive, the defendant charged the sum of 5c per play to purchasers to whom music was furnished by record playing of the defendant's said coin-operated music machines.

VI.

That during the period September 1, 1951, to May 9, 1952, inclusive, the defendant charged and received from customers playing said coin-operated machines the sum of \$25,956.20 in excess of a total charge calculated on the price of 5c per play.

VII.

That the phonographs in question were owned by the defendant and operated in the following manner: each machine was placed in a tavern or other public place of business by the defendant upon an arrangement with the location owner, whereby 50% of the proceeds from the phonograph was paid to the location owner, and the defendant paid all operating expense, except for the electric current to operate the phonograph.

A patron of the location owner, who desired to play the phonograph, would select the record desired, by pressing a button or lever, and inserting the required coin necessary for the number of records the patron desired played. The phonograph would then automatically change and play the desired records. During each month, the defendant, or his employees, would, on certain days, service the

phonograph and collect the money from the phonograph coin box and pay 50% of the proceeds to the location owner.

VIII.

That all of the sales of services involved in this action occurred within one year of the filing of the complaint herein and all of said sales were other than in the course of purchasers' trade or business.

IX.

That none of the sales complained of herein arose because defendant acted upon and in accordance with the written advice and instructions of the President of the United States or any official or employee authorized to act for him, and none of the sales herein involved arose out of the sale of any material or service to any agency of the Government pursuant to the lowest bid made in response to an invitation for competitive bids.

Contentions of Plaintiff

I.

That under said Ceiling Price Regulation 34, defendant's ceiling prices for the sale of such services, the furnishing of music by means of coin operated machines, was the highest price charged for such services during the base period from December 19, 1950, to January 25, 1951, inclusive, to purchasers of the same class, and defendant's ceiling price was fixed by said regulation in the sum of five cents for the playing of each record in such coin operated machines.

II.

That defendant during the period from September 1, 1951, to the 5th day of May, 1952, sold such services at a price of ten cents and three for twenty-five cents for the playing of records in coin operated machines located in various establishments in the States of Oregon and California, and charged and received prices for the same over the lawful ceiling price aforesaid calculated at 5c per play, in the total amount of \$25,956.20.

III.

That the defendant violated the aforesaid Ceiling Price Regulation No. 34, and said violation was either willful or the result to failure to take practicable precautions against the occurrence of the violation.

IV.

That plaintiff is entitled to judgment in the sum of \$77,868.60.

Contentions of Defendant

I.

That all of the charges exacted by defendant in the period in question resulting in a claimed overcharge of \$25,956.20, were not the result of sales of service within the contemplation of the Defense Production Act of 1950, as amended, and Ceiling Price Regulation No. 34.

II.

That the Defense Production Act of 1950, as amended, by its own terms, and the intent of Con-

gress as expressed therein, was not intended to, nor did it apply to a luxury type of business such as the automatic phonograph business.

III.

That if defendant is found liable for any sum for overcharge, said sum should not exceed one-half of the claimed overcharge because defendant received only one-half of total proceeds.

Issues of Law

I.

Are the maximum ceiling prices that may be lawfully charged by the defendant as an owner of coin operated music machines, subject to regulations under the Defense Production Act of 1950 as amended?

II.

Does Ceiling Price Regulation No. 34, fix and establish the maximum lawful ceiling prices that the defendant could charge during the period September 1, 1951, to May 9, 1952, inclusive, for music rendered by coin operated music machines?

Conclusion

This pre-trial order has been formulated after a conference between the attorneys for the respective litigants. There are no issues of law or fact except as embodied in this order and this order supersedes the pleadings as to issues of fact and law. This

order will control the course of the trial and shall not be amended except by consent of the parties and the Court or by the Court to prevent manifest injustice.

Dated at Portland, Oregon, this 8th day of February, 1954.

/s/ GUS J. SOLOMON,
District Judge.

The Foregoing Pre-Trial Order Is Hereby Approved:

/s/ WILLIS A. WEST,
Special Assistant United States Attorney, of Attorneys for Plaintiff.

/s/ HARRISON W. CALL,
Of Attorneys for Defendant.

[Endorsed]: Filed February 8, 1954.

[Title of District Court and Cause.]

(Copy)

ORAL OPINION

June 30, 1954

I find that the Ceiling Price Regulation No. 34, issued pursuant to the provisions of the Defense Production Act of 1950, as amended, was intended to and did regulate the maximum prices that may be charged by the operators of coin-operated music machines, and that such regulation is valid.

It is admitted that, by reason of the fact that during the base period the charge for playing each record was five cents and that during the period beginning September 1, 1951, to May 9, 1952, the customers playing such machines were required to pay \$25,956.20 in excess of the total charge calculated on the price of five cents per play. However, it appears that the defendant only received 50 per cent of the gross income from the operation of such machines and that the owner of the location received the other 50 per cent. In view of that fact, I find that the defendant is liable for only one-half of the amount of the overcharge, or \$12,978.10.

In my opinion, this is not a proper case for the imposition of treble damages.

The Government may therefore have a judgment against the defendant for the sum of \$12,978.10.

[Title of District Court and Cause.]

FINDINGS OF FACT AND CONCLUSIONS OF LAW

The above-entitled cause having been submitted to the Court for determination without trial or oral argument on an agreed statement of facts contained in the pre-trial order on file herein and briefs filed by counsel for the respective parties; and the Court having considered all the facts and contentions of counsel; and the Court being fully advised in the

premises, makes its Findings of Fact and Conclusions of Law as follows:

Findings of Fact

The Court finds as follows:

1. That this is a civil action brought to recover damages for violation by defendant of Ceiling Price Regulation No. 34 (16 F.R. 4446), as amended, issued pursuant to the Defense Production Act of 1950 (Public Law 69, 82nd Congress, 64 Stat. 798, Public Law 96, 82nd Congress), as amended. Jurisdiction of the suit is vested in this Court by Section 798(b) of the Defense Production Act of 1950, as amended, and also by Section 1345, Title 28, United States Code.
2. That Section 409(c) of the Defense Production Act of 1950, as amended, provides that if any person selling any material or services violates a regulation or order prescribing a ceiling or ceilings, the person who buys such material or service for use or consumption, other than in the course of trade or business, may within one year from the date of the occurrence of the violation, except as provided in the section, bring an action against the seller on account of the overcharge and the seller shall be liable for reasonable attorney's fees and costs plus whichever sum is greater an amount not more than three times the amount of the overcharge or the overcharges upon which the action is based or an amount not less than \$25.00 nor more than \$50.00 as the Court in its discretion may determine, provided

that the amount shall be the amount of the overcharge or overcharges if the defendant proves that the violation was neither willful nor the result of failure to take practicable precautions against the occurrence of the violation. The section further provides that if the buyer fails to institute an action within thirty days from the date of the occurrence of the violation or is not entitled for any reason to bring the action, the President may institute such action on behalf of the United States. The section defines overcharge as the amount by which the consideration exceeds the applicable price.

3. Ceiling Price Regulation No. 34 aforesaid, effective May 16, 1951, was issued by the Director of Price Stabilization pursuant to the aforesaid Defense Production Act of 1950, as amended, Executive Order 10161 (15 F.R. 6105) and Economic Stabilization Agency Order No. 2 (16 F.R. 730). That said regulation was in full force and effect at all times from September 3, 1951, to the 1st day of December, 1952.

4. That defendant is an individual doing business under the assumed name of Martin Music Company in the State of Oregon and in the State of California, with his principal offices in the City of Grants Pass, in the County of Josephine and the State of Oregon, within the District of Oregon and the jurisdiction of this Court, and was and is engaged in the furnishing of music by means of coin operated machines to purchasers in said state and district.

5. That during the base period December 19, 1950, to January 25, 1951, inclusive, the defendant charged the sum of 5c per play to purchasers to whom music was furnished by record playing of the defendant's said coin-operated music machines.

6. That during the period September 1, 1951, to May 9, 1952, inclusive, the defendant charged and received from customers playing said coin-operated machines the sum of \$25,956.20 in excess of a total charge calculated on the price of 5c per play.

7. That the phonographs in question were owned by the defendant and operated in the following manner: each machine was placed in a tavern or other public place of business by the defendant upon an arrangement with the location owner, whereby 50% of the proceeds from the phonograph was paid to the location owner, and the defendant paid all operating expense, except for the electric current to operate the phonograph.

A patron of the location owner who desired to play the phonograph, would select the record desired by pressing a button or lever and inserting the required coin necessary for the number of records the patron desired played. The phonograph would then automatically change and play the desired records. During each month, the defendant, or his employees, would, on certain days, service the phonograph and collect the money from the phonograph coin box and pay 50% of the proceeds to the location owner.

8. That all of the sales of services involved in this action occurred within one year of the filing of the complaint herein and all of said sales were other than in the course of purchasers' trade or business.
9. That none of the sales complained of herein arose because defendant acted upon and in accordance with the written advice and instructions of the President of the United States or any official or employee authorized to act for him, and none of the sales herein involved arose out of the sale of any material or service to any agency of the Government pursuant to the lowest bid made in response to an invitation for competitive bids.

Conclusions of Law

From the foregoing facts, the Court concludes:

1. Ceiling Price Regulation No. 34 issued pursuant to the provisions of the Defense Production Act of 1950, as amended, was intended to and did regulate the maximum prices that may be charged by the operators of coin-operated music machines, and that such regulation is valid.
2. Inasmuch as it appears that the defendant only received 50% of the gross income from the operation of such machines and that the owner of the location received the other 50%, the defendant is liable for only $\frac{1}{2}$ of the amount of the overcharge, or \$12,978.10.
3. This is not a proper case for the imposition of treble damages.

4. The government is entitled to have a judgment against the defendant for the sum of \$12,978.10.

Let judgment be entered accordingly.

Dated at Portland, Oregon, this 10th day of August, 1954.

/s/ GUS J. SOLOMON,
District Judge.

[Endorsed]: Filed August 10, 1954.

In the United States District Court for the
District of Oregon
Civil No. 6616

UNITED STATES OF AMERICA,

Plaintiff,

vs.

CLIFFORD G. MARTIN, d/b/a Martin Music
Company,

Defendant.

JUDGMENT

The above-entitled cause having been submitted to the Court for determination without trial or oral argument on an agreed statement of facts contained in the pre-trial order on file herein and briefs filed by counsel for the respective parties; and the Court having considered all the facts and contentions of counsel; and the Court being fully advised in the premises and having filed herein its Findings of

Fact and Conclusions of Law and having directed that Judgment be entered in accordance therewith,

Now, therefore, by reason of the law and findings aforesaid,

It Is Hereby Ordered, Adjudged And Decreed that the plaintiff have and recover of and from the defendant the sum of \$12,978.10.

Dated at Portland, Oregon, this 10th day of August, 1954.

/s/ GUS J. SOLOMON,
District Judge.

[Endorsed]: Filed and entered August 10, 1954.

[Title of District Court and Cause.]

NOTICE OF APPEAL

Notice is hereby given that Clifford G. Martin, d/b/a Martin Music Company, defendant above named, hereby appeals to the United States Court of Appeals for the Ninth Circuit from the final judgment entered in this action on the 10th day of August, 1954.

/s/ HARRISON W. CALL,
/s/ RANDALL S. JONES,
Of Attorneys for Defendant,
Clifford G. Martin.

JACOB, JONES & BROWN,
Of Counsel.

[Endorsed]: Filed September 13, 1954.

[Title of District Court and Cause.]

ORDER FIXING TIME FOR
FILING BOND ON APPEAL

It appearing to the Court that Notice of Appeal from the judgment in the above-entitled matter was filed by the Defendant on the 13th day of September, 1954, pursuant to Rule 73 (a) of the Federal Rules of Civil Procedure, and that the action is not yet docketed with the Court of Appeals, it is therefore

Ordered that the defendant is hereby granted to the 21st day of October, 1954, in which to file with the Clerk of the above-entitled Court his Bond for costs on appeal.

Dated this 11th day of October, 1954.

/s/ CLAUDE McCOLLOCH,
Judge.

[Endorsed]: Filed October 11, 1954.

[Title of District Court and Cause.]

BOND FOR COSTS ON APPEAL

Know All Men By These Presents that the United Pacific Insurance Company, a corporation organized and existing under the laws of the State of Washington, and authorized and empowered under the laws of the State of Oregon, to become surety upon bonds, undertaking, etc., in the State of Oregon, is

held and firmly bound unto United States of America, the plaintiff in the above-entitled action, in the penal sum of Two Hundred Fifty and no/100 (\$250.00) Dollars, lawful money of the United States, for the payment of which sum well and truly to be made, it binds itself, its successors and assigns, firmly by these presents.

Upon Condition, Nevertheless, that

Whereas, Clifford G. Martin, d/b/a Martin Music Company, the defendant in the above-entitled action, has appealed or appeals to the United States Court of Appeals for the Ninth Circuit from the judgment made and entered in the said action in the said District Court, in favor of the plaintiff and against the defendant in the said action on the 10th day of August, 1954;

Now, if the said Clifford G. Martin, d/b/a Martin Music Company, shall well and truly pay all costs and disbursements that may be awarded by the said United States Court of Appeals if the appeal is dismissed or the judgment affirmed or modified, then this obligation to be void; otherwise to remain in full force and effect.

[Seal]

UNITED PACIFIC
INSURANCE COMPANY,

By /s/ EMMA M. KEMP,
Attorney-in-Fact.

[Endorsed]: Filed October 11, 1954.

[Title of District Court and Cause.]

**ORDER EXTENDING TIME FOR FILING
RECORD ON APPEAL AND DOCKETING
APPEAL**

It appearing to the Court that Notice of Appeal from the judgment in the above-entitled matter was filed by the Defendant on the 13th day of September, 1954, pursuant to Rule 73 (a) of the Rules of Civil Procedure and that the time for filing the record on appeal and docketing the appeal has not expired, it is therefore

Ordered that the time in which the defendant must file the record on appeal and docket the appeal be and the same is hereby extended to the 24th day of November, 1954.

Dated this 11th day of October, 1954.

/s/ CLAUDE McCOLLOCH,
Judge.

[Endorsed]: Filed October 11, 1954.

United States of America,
District of Oregon—ss.

CERTIFICATE OF CLERK

I, F. L. Buck, Acting Clerk, of the United States District Court for the District of Oregon, do hereby certify that the foregoing documents consisting of Amended complaint, Motion to dismiss complaint,

Answer to amended complaint, Pre-trial order, Copy of oral opinion of Judge Gus J. Solomon (not filed), Findings of fact and conclusions of law, Judgment, Notice of appeal, Order fixing time for filing bond on appeal, Bond for costs on appeal, Order extending time for filing record on appeal, etc., Designation of record, and Transcript of docket entries, constitute the record on appeal from a judgment of said court in a cause therein numbered Civil 6616, in which Clifford G. Martin, d/b/a/ Martin Music Company is the defendant and appellant and United States of America is the plaintiff and appellee; that the said record has been prepared by me in accordance with the designation of contents of record on appeal filed by the appellant, and in accordance with the rules of this court.

I further certify that the cost of filing the notice of appeal, \$5.00 has been paid by the appellant.

In Testimony Whereof I have hereunto set my hand and affixed the seal of said court in Portland, in said District, this 16th day of November, 1954.

[Seal] /s/ F. L. BUCK,
 Acting Clerk.

[Endorsed]: No. 14581. United States Court of Appeals for the Ninth Circuit. Clifford G. Martin, Doing Business as Martin Music Company, Appellant, vs. United States of America, Appellee. Transcript of Record. Appeal From the United States District Court for the District of Oregon.

Filed: November 18, 1954.

/s/ PAUL P. O'BRIEN,

Clerk of the United States Court of Appeals for the Ninth Circuit.

In the United States Court of Appeals
for the Ninth Circuit
No. 14581

CLIFFORD G. MARTIN, d/b/a Martin Music
Company,

Appellant,
vs.

UNITED STATES OF AMERICA,
Appellee.

**STATEMENT OF POINTS ON WHICH
APPELLANT INTENDS TO RELY**

The above-named Appellant intends to rely on the following points on his appeal to the United States Court of Appeals for the Ninth Circuit, to wit.

1. The Trial Court erred in deciding and finding (Conclusion of Law I) that Ceiling Price Regulation No. 34 issued pursuant to the provision of the Defense Production Act of 1950, as amended, was intended to and did regulate the maximum price that may be charged by operators of coin-operated music machines, and in deciding and finding that such regulation was valid.

2. The United States of America, its officials, agents and servants were not authorized by the Defense Production Act of 1950, as amended, or by any act or statute, to establish a ceiling price for coin-operated music machines.

3. The United States of America, through its officials, agents and servants failed, neglected and

refused to conform to or abide by the Defense Production Act of 1950, as amended, in promulgating its regulations, and particularly Ceiling Price Regulation 34, insofar as such regulations applied to the price to charged for furnishing music by means of a coin-operated machine.

4. The Defense Production Act of 1950, as amended, by its own terms, and the intent of Congress as expressed therein, was not intended to and did not apply, to a luxury type of business such as the automatic phonograph business.

5. The maximum ceiling prices that could be lawfully charged by the appellant as the owner of coin-operated music machines were not subject to regulations under the Defense Production Act of 1950, as amended.

6. The appellant was not at any time mentioned in the Complaint herein, engaged in any business and did not furnish any goods or render any services that were in any way within the contemplation of the Defense Production Act of 1950, as amended, or of Ceiling Price Regulation 34.

7. The charges exacted by appellant in the period in question which resulted in the claimed overcharge were not the result of sales of goods or services within the contemplation of the Defense Production Act of 1950, as amended, and Ceiling Price Regulation 34.

8. Ceiling Price Regulation 34 did not fix and establish the maximum lawful ceiling prices that appellant could charge during the period September

1, 1951 to May 9, 1952, inclusive, for music rendered by coin-operated machines.

9. Ceiling Price Regulation 34, if it applies and insofar as it applies to the furnishing of music by means of coin-operated machines, is null and void and in violation of the express provisions of the Defense Production Act of 1950, as amended.

10. If the prices to be charged for furnishing of music by means of coin-operated machines were within the contemplation of the Defense Production Act of 1950, as amended, and of Ceiling Price Regulation 34, the said prices and services were exempted from the provisions of the Act and service regulations by General Overriding Order 14, issued by the Office of Price Stabilization on July 9, 1951, excepting fees and charges made by persons engaged in the entertainment business.

11. The appellant was engaged in the entertainment business during the period September 1, 1951, to May 9, 1952, and, therefore, the fees and charges made by him for furnishing music by means of coin-operated machines for the entertainment of patrons of public places were not subject to the provisions of Ceiling Price Regulation 34.

Dated this 24th day of November, 1954.

/s/ RANDALL S. JONES,
Of Attorneys for Appellant.

Duly Verified.

[Endorsed]: Filed November 26, 1954.

United States
COURT OF APPEALS
for the Ninth Circuit

CLIFFORD G. MARTIN, Doing Business as
Martin Music Company,

Appellant,

vs.

UNITED STATES OF AMERICA,

Appellee.

BRIEF OF APPELLANT

*Appeal from the United States District Court for the
District of Oregon*

HARRISON W. CALL,
409 Forum Building,
Sacramento, California;

RANDALL S. JONES,
JACOB, JONES AND BROWN,
917 Public Service Building,
Portland, Oregon,
For Appellant.

FILED

MAR - 1 1955

PAUL P. O'BRIEN,
CLERK

INDEX

	Page
Jurisdictional Statement	1
Statement of the Pleadings.....	2
Statement of the Case	4
Specification of Major Grounds Wherein Judgment Is Erroneous and Should Be Reversed	5
1. The Appellant's business is specifically ex- empted from the application of Ceiling Price Regulation 34 by the provisions of the said regulation	5
3. If the prices for furnishing music by means of coin-operated machines were within the contemplation of the General Ceiling Price Regulation and of Ceiling Price Regulation 34, the said prices and such services were exempted from the provisions of the said regulation by General Overriding Regula- tion 14	9
Conclusion	13

TABLE OF AUTHORITIES

STATUTES AND REGULATIONS

	Page
Ceiling Price Regulation (CPR) 34, 16 Fed. Reg. 4446, as amended 32A C.F.R. 732.....	8
Sec. 2, 16 Fed. Reg. 4447, 32A C.F.R. 732.....	8
Defense Production Act of 1950.....	2
General Ceiling Price Regulation, 16 Fed. Reg. 808, as amended, 32A C.F.R. 1451.....	5
Sec. 14, 16 Fed. Reg. 814, as amended, 32A C.F.R. 1460	5, 6
General Overriding Regulation (GOR) 14. 16 Fed. Reg. 6664, as amended, 32A C.F.R. 1656.....	9, 12
Internal Revenue Code of 1954, sec. 4232 (b).....	10

DICTIONARY

Webster's New International Dictionary, 2d Ed., Unabridged (1950)	5, 7, 11
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**United States
COURT OF APPEALS
for the Ninth Circuit**

CLIFFORD G. MARTIN, Doing Business as
Martin Music Company,
Appellant,
vs.

UNITED STATES OF AMERICA,
Appellee.

BRIEF OF APPELLANT

*Appeal from the United States District Court for the
District of Oregon*

JURISDICTIONAL STATEMENT

This is an appeal from a judgment entered on August 10, 1954, by the District Court for the District of Oregon awarding the United States the sum of \$12,978.10 (Tr. 35). The action was brought by the Government for violation of Ceiling Price Regulation 34 issued by the Office of Price Stabilization pursuant to its authority under the Defense Production Act of 1950. Appellant's Notice of Appeal was filed September 13th, 1954 (Tr. 36). The jurisdiction of this Court is invoked under 28 U.S.C. 1291.

STATEMENT OF THE PLEADINGS

The Appellant, Clifford G. Martin, was sued by the United States of America under the provisions of the Defense Production Act of 1950, as amended, for alleged over-charges in connection with the operation of coin-operated phonographs, commonly referred to as a "juke-box", in the states of Oregon and California.

During the period that the alleged over-charges occurred, the Appellant was engaged in the business of supplying music by means of coin-operated machines in the States of Oregon and California, with his principal office in the City of Grants Pass, County of Josephine, State of Oregon.

During the base period, December 19th, 1950, to January 25, 1951 inclusive, the Appellant charged the sum of Five (5¢) Cents per play to persons to whom he furnished recorded music on his machines.

During the period September 1, 1951 to May 9, 1952 inclusive, the Appellant charged the customers operating his coin-operated music machines the sum of Twenty Five Thousand Nine Hundred Fifty Six and 20/100 (\$25,956.20) Dollars in excess of the amount which he would have charged calculated on the price of Five (5¢) Cents per play. Of the amount so received, One-Half ($\frac{1}{2}$), or Twelve Thousand Nine Hundred Seventy Eight and 10/100 (\$12,978.10) Dollars, was paid to the location owners. From his half of the proceeds, Appellant selected, purchased and supplied all records for the machines and paid all operating expenses incidental to the

operation and service of the machines, except for electric current to operate the phonographs.

The United States of America, as Plaintiff, contended by its pleadings and the Pre-Trial Order that under Ceiling Price Regulation 34 Appellant's ceiling price for the sale of said services was the highest price charged for such services during the base period, and that Appellant's ceiling price was fixed by the said regulation at the sum of Five (5¢) Cents for the playing of each record in such coin-operated machines, and that the Appellant during the period from September 1, 1951 to May 5, 1952, sold such services at a price in excess of the alleged ceiling prices, and as a result of such over-charges received the total amount of Twenty Five Thousand Nine Hundred Fifty Six and 20/100 (\$25,956.20) Dollars, and that the United States of America was entitled to judgment for treble damages.

Appellant, Clifford G. Martin, as defendant, contended by his pleadings and the Pre-Trial Order that Ceiling Price Regulation 34 did not apply to him, in that the prices charged by him were specifically exempt from the application of the regulation.

The cause was submitted to the trial court for determination without trial or oral argument on an agreed statement of fact set forth in the Pre-Trial Order.

The trial court found that, inasmuch as the Appellant received one One-half ($\frac{1}{2}$) of the gross income from the operation of his machines, he was liable for only the actual amount charged and received by him in

excess of the amount that he would have charged and received calculated at Five (5c) Cents per play. Judgment was entered against the Appellant in the amount of Twelve Thousand Nine Hundred Seventy Eight and 10/100 (\$12,978.10) Dollars.

STATEMENT OF THE CASE

The Appellant has filed herein his Statement of Points on which he intends to rely on appeal. The Appellant does not waive any of the points raised therein. In this brief the Appellant will only argue the points more specifically hereinafter referred to, but he is not waiving nor abandoning any of the other points raised in his Statement of Points on which he intends to rely on appeal.

The facts involved in this appeal are those referred to above in the Statement of Pleadings. The issues involved are:

1. Was Appellant's business specifically exempted from the application of Ceiling Price Regulation 34 by the provisions of said regulation?
2. If not, was Appellant specifically exempted from the application of Ceiling Price Regulation 34 by the provisions of General Overriding Regulation 14?

SPECIFICATION OF MAJOR GROUNDS WHEREIN JUDGMENT IS ERRONEOUS AND SHOULD BE REVERSED

Appellant claims there are two major reasons why the judgment against him is erroneous and should be reversed. These, in the order of their presentation and argument, are:

The Trial Court erred in failing to find that:

1. The Appellant's business is specifically exempted from the application of Ceiling Price Regulation 34 by the provisions of the said regulation.
2. If the prices for furnishing music by means of coin-operated machines were within the contemplation of the General Ceiling Price Regulation and of Ceiling Price Regulation 34, the said prices and such services were exempted from the provisions of the said regulation by General Overriding Regulation 14.

1.

The Defendant's business is specifically exempted from the application of Ceiling Price Regulation 34 by the provisions of the said regulation.

The General Ceiling Price Regulation (GCPR) provides in part as follows:

Sec. 14 (16 Fed. Reg. 814, as amended, 32A C.F.R. 1460):

excess of the amount that he would have charged and received calculated at Five (5¢) Cents per play. Judgment was entered against the Appellant in the amount of Twelve Thousand Nine Hundred Seventy Eight and 10/100 (\$12,978.10) Dollars.

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1.

The Defendant's business is specifically exempted from the application of Ceiling Price Regulation 34 by the provisions of the said regulation.

The General Ceiling Price Regulation (GCPR) provides in part as follows:

Sec. 14 (16 Fed. Reg. 814, as amended, 32A C.F.R. 1460):

"*Exemptions and Exceptions.* This regulation does not apply to the following:

.....
(c) Prices or rentals for:

(1) Materials furnished for publication by any press association or feature service; . . ."

In effect GCPR provides that there shall be no regulation of prices charged by any "feature service" for materials furnished by it for "publication". Appellant will show that his business was at all times with which we are here concerned a "feature service", which furnished materials for "publication" within the contemplation of the Regulation, and that, therefore, his business was specifically exempted from the application of the price regulations.

In Webster's New International Dictionary (2d Ed., Unabridged, 1950), "publication" is defined at page 2005 as follows:

"1. Act of publishing, or state of being published; public notification, whether oral, written, or printed
....."

Obviously the word "publication", as used in GCPR, means neither more nor less than the generally accepted definition of the word. In this sense and in the obvious meaning of the regulation, "publication" must be defined in the manner in which it is defined in standard dictionaries of the English language. As so defined, "publication" must refer to a presentation or distribution of material to the public, whether the presentation is through written, printed or oral media. Any definition of the word "publication", which does not give it a

sensible meaning in its application to modern inventions and to modern usage would be clearly arbitrary and contrary to the purpose and intent of the GCPR.

Appellant's business is a "feature service" within the meaning of GCPR. For Appellant's business to succeed, he must cater to the whims and fancies of the public in selecting recordings which are then in public favor. If he fails to feature the so-called "hit tunes" of the day, or if he wrongly gages the public's demands, his business is doomed to failure. From the very nature of the service rendered by Appellant, it is a "feature service".

The characteristics which make Appellant's business a "feature service" are apparent. Appellant must first select and obtain locations at which to install his coin-operated music machines. Thereafter he must exhibit those recordings which will be particularly attractive to the patrons of each location, replace recordings as they wear out or break, substitute recordings for those which have ceased to be attractive to the public, and perform a myriad of other services in order to make his operation successful.

Webster's New International Dictionary at page 927 defines "feature" as follows:

"6. U. S. Anything in an offering to the public or a clientele which is exhibited or advertised as particularly attractive. . . ."

There are in this country many businesses which come within the meaning of the term "feature services". Examples are syndicated columns and specialty features for radio and television programs. The exhibition of

current popular musical hits in the countless coin-operated music machines throughout the country is also a "feature service". Appellant selected from a large number of possible offerings a comparatively few recordings that he exhibited as particularly attractive. The business conducted by the Appellant fits squarely within Webster's definition of the word "feature".

That Appellant's business is a "service" business within the meaning of the regulation must be conceded, for the regulation pursuant to which the action was brought against the Appellant was applicable only to the sales of services.

Appellant's business was thus specifically exempted from the application of the GCPR, because the prices charged by him were "prices . . . for materials furnished for publication by any . . . feature service."

Appellant was specifically charged in the Complaint in this action with a violation of Ceiling Price Regulation 34 (CPR 34), Section 2 of which (16 Fed. Reg. 4447, 32A C.F.R. 732) provides as follows:

"Services covered. This regulation covers all services except:

(a) Services exempted in the GCPR, as amended; . . ."

By its express provisions, CPR 34 specifically exempted from its application all services exempted in the GCPR. Therefore, the prices charged by Appellant for his services, being exempted in the GCPR, were specifically exempted from the application of CPR 34, pursuant to which this action against the Appellant was brought and the judgment appealed from obtained.

2.

If the prices for furnishing music by means of coin-operated machines were within the contemplation of the General Ceiling Price Regulation and of Ceiling Price Regulation 34, the said prices and such services were exempted from the provisions of the said regulations by General Overriding Regulation 14.

In its General Overriding Regulation 14 (GOR 14), 16 Fed. Reg. 6664, as amended 32A C.F.R. 1656 (1951), the Office of Price Stabilization (OPS) specifically exempted the services performed and prices charged by Appellant from the application of CPR 34. GOR 14 adopted July 9, 1951 by the OPS provided, in pertinent part, as follows:

"Sec. 3. *Exceptions.* (a) No ceiling price regulation now or hereafter issued by the Office of Price Stabilization shall apply to the rates, fees and charges for the supply of the services listed below and the services which fall within the scope of the occupations or categories listed below:

- (2) Actors and actresses . . .
- (5) Artists.
- (6) Athletes . . .
- (23) Entertainers . . .
- (39) Musicians . . .
- (51) Program elements (package productions) furnished by independent contractors (package producers) for use in radio or television broadcasting or in a motion picture, theatre, or night club . . .
- (54) Sports officials . . .
- (77) Managers of actors, actresses and athletes . . ."

It is apparent that OPS in adopting GOR 14 intended to and did specifically exempt from the application of CPR 34 all entertainers. In addition to listing many specific facets of the entertainment industry (e.g., actors, actresses, artists, athletes, etc.) GOR 14, Sec. 3 (a) (23) specifically included the catch-all term "entertainers". There can be no doubt that the Appellant's services fell directly within the scope of the occupation or category listed in GOR 14 as "entertainers".

The "juke-box" industry provides entertainment for countless numbers of the American public through the location of juke-box outlets in restaurants, cafes and other places patronized by the public throughout the many cities, towns, hamlets, villages in this country. It would be difficult to find many areas in the United States which are not serviced by this form of entertainment.

The Congress of the United States has clearly recognized that furnishing music by means of coin-operated machines constitutes "entertainment". The language of Section 4232 (b) of the Internal Revenue Code of 1954 contains the following:

"The term 'roof garden, cabaret, or other similar place,' . . . shall include any room in any hotel, restaurant, hall, or other public place where music and dancing privileges *or any other entertainment, except instrumental or mechanical music alone*, are afforded the patrons in connection with the serving or selling of food, refreshment, or merchandise . . ." (Emphasis supplied)

No explanation for the use of the words "mechanical music" in the context of that statute can reasonably be

made other than that Congress regarded the playing of mechanical music in cafes, restaurants and other public places as "entertainment".

In Webster's New International Dictionary, at page 853, the word "entertainer" is defined as follows:

"One who or that which entertains; specif., one who gives professional entertainments."

and the word "entertainment" is defined as follows:

"3. That which entertains, or with which one is entertained; as . . . b. That which engages the attention agreeably, amuses, or diverts, whether in private . . . or in public."

and the word "entertain" is defined as follows:

"5. To engage the attention of agreeably; to amuse with that which makes the time pass pleasantly; to divert."

That the service furnished by Appellant is one which "engages the attention" of the public "agreeably" and "amuses" the public "with that which makes the time pass pleasantly" can not be controverted.

That the Appellant is one who furnishes "professional entertainments" seems too clear to provoke much argument. In Webster's New International Dictionary, at page 1976, the word "professional" is defined as follows:

"3A. Engaging for livelihood or gain in an activity . . ."

Clearly the Appellant is "one who entertains", and his business is "that which entertains", and he is, specifically, "one who gives professional entertainment".

The Appellant was an "entertainer", as defined by standard dictionaries and he furnished "entertainment", as that word is defined by dictionaries and used by Congress.

The fact that GOR 14 did not specifically list the service supplied by the Appellant by name is immaterial. Among the entertainment industry only a few specific forms of entertainment and entertainers were specifically mentioned in the regulation. Had the Office of Price Stabilization intended to limit the exception to those few, it surely would not have included the word "entertainers". To the contrary OPS must have intended to exempt the large number of entertainers whose many particular specialties were too numerous to specifically list.

To quote only the pertinent language of GOR 14, it reads as follows:

"No ceiling price regulation . . . shall apply to the rates, fees and charges for the supply of services which fall within the scope of the occupations or categories listed . . . [as] entertainers."

The service supplied by the Appellant falls within the scope of the occupation or category listed as "entertainers." The Appellant is an entertainer within the scope of the occupations or categories to which the word refers. To hold otherwise would be to distort the English language to the prejudice of the Appellant and to arrive at a result obviously not intended by the regulation.

The Appellant is not urging the invalidity of any specific regulation. To the contrary the Appellant is urg-

ing that the very regulation which he has been accused of violating specifically exempted him from the application of the Price Control Regulations.

As an "entertainer" the Appellant was specifically exempted by GOR 14 from the application of Ceiling Price Regulation 34.

CONCLUSION

Appellant believes that he has shown that under the applicable regulations:

(1) Appellant's business was a "feature service" furnishing materials "for publication" and, as such, was exempted from regulation under the General Ceiling Price Regulation and under Ceiling Price Regulation 34.

(2) The fees and charges made by Appellant for services supplied as an entertainer furnishing music by means of coin-operated machines for the entertainment of patrons of public places was specifically exempted from the provisions of Ceiling Price Regulation 34 by General Overriding Regulation 14.

THEREFORE, the Judgment of the Trial Court being contrary to the law should be reversed.

Respectfully submitted,

RANDALL S. JONES,
JACOB, JONES & BROWN,
By _____

Attorneys for Appellant.

No. 14581

In the United States Court of Appeals
for the Ninth Circuit

CLIFFORD G. MARTIN, d.b.a. MARTIN MUSIC CO.
APPELLANT

v.

UNITED STATES OF AMERICA, APPELLEE

ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF OREGON

BRIEF FOR APPELLEE

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FILED

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INDEX

	Page
Jurisdictional statement	1
Statement of the case	2
Questions presented	4
Regulations involved	4
Summary of argument	4
Argument	6
I. CPR 34 did apply to charges obtained by coin-operated music machines	6
II. GOR 14 did not exempt charges by coin-operated music machines from ceiling price regulations during the period for which damages were awarded by the dis- trict court	12
Conclusion	13
Appendix A	14
Appendix B	17

CITATIONS

Cases:

<i>Bowles v. Seminole Rock and Sand Co.</i> , 325 U.S. 410	11
<i>Porter v. Crawford and Dougherty Foundry Co.</i> , 154 F. 2d 431 (C.A. 9), certiorari denied, 329 U.S. 720	11
<i>Walt Schinkal v. United States</i> , No. 14313, now pending on appeal	5, 11, 13

Statute:

Defense Production Act of 1950	1, 3
Section 409(e)	3

Miscellaneous:

Ceiling Price Regulation 34, 16 Fed. Reg. 4446, as amended, 32A C.F.R. 732	1, 2, 3, 4, 5, 6, 7, 8, 9, 11, 12, 14
Section 1	14
Section 2	15
Section 2(a), 16 Fed. Reg. 4447, 32A C.F.R. 732	6, 15
Section 27, 16 Fed. Reg. 4451, 32A C.F.R. 740	6, 15
Supplementary Reg. 6, 16 Fed. Reg. 11109, 32A C.F.R. 751	7
Supplementary Reg. 11, 17 Fed. Reg. 820	7
Supplementary Reg. 12, 17 Fed. Reg. 1184	7
Interp. 18, 85 Serv. 32:200.3 (OPS Official Service)	8
General Ceiling Price Regulation, 16 Fed. Reg. 808, as amended, 32 C.F.R. 1451	4
See, 14, 16 Fed. Reg. 814, as amended, 32A C.F.R. 1460	9, 14
Supplementary Reg. 74, 16 Fed. Reg. 10782, 32A C.F.R. 1622	8

Miscellaneous—Continued

Page

General Overriding Regulation 14, 16 Fed. Reg. 6664, as amended, 32A C.F.R. 1656.....	4, 5, 6, 12, 13, 15
Section 3	12, 15
Amendment 27, 17 Fed. Reg. 10858 (effective December 1, 1952)	13
OPS Release G-4, CCH, <i>Emergency Business Control Service</i> , Par. 70, 122	8
OPS Release O-130, CCH, <i>Emergency Business Control Service</i> , Par. 70, 114	7
Price Order Questions and Answers—I, CCH, <i>Emergency Business Control Service</i> , Par. 70, 101.....	7

**In the United States Court of Appeals
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APPELLANT**

v.

UNITED STATES OF AMERICA, APPELLEE

*ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF OREGON*

BRIEF FOR APPELLEE

JURISDICTIONAL STATEMENT

This is an appeal from a judgment entered on August 10, 1954, by the District Court for the District of Oregon, awarding the United States the sum of \$12,978.10 (R. 35-36). The suit was brought by the Government on December 1, 1952 for a violation of Ceiling Price Regulation (CPR) 34, issued by the Office of Price Stabilization (OPS) pursuant to its authority under the Defense Production Act of 1950. The facts involved in the case were admitted (R. 23-26), and after deliberation on the issues of law the court entered judgment for the Government. Appellant's notice of appeal was filed on September 13, 1954. The jurisdiction of this court is invoked under 28 U.S.C. 1291.

STATEMENT OF THE CASE

Under authority granted by the Defense Production Act and delegated to OPS by the President, the OPS issued a General Ceiling Price Regulation (GCPR) fixing the overall pattern of price regulation. Thereafter, particularizing its requisites for differing types of industries, the OPS issued numerous ceiling price regulations included among which was CPR 34, the regulation for prices charged for services. Amendments to the regulations, including the decontrol of certain industries and occupations, were frequently effected by General Overriding Regulations. The Defense Production Act provides four distinct remedies for violation of price regulations issued under its authority, one of which is represented by this action—a suit by the Government for damages when no action has been brought by the private purchasers who sustained the overcharges.

The services for which the appellant has been found to have charged above his ceiling price were the maintenance, operation, and rental of coin-operated music machines, commonly known as juke boxes. The admitted facts, as set forth in the district court's pre-trial order (R. 23-26), show that appellant charged five cents per record between December 19, 1950 and January 25, 1951, the base period designated by CPR 34 for determining a ceiling price on services. However, between September 1, 1951 and May 5, 1952 appellant was charging ten cents per record, or three records for a quarter, at these same installations. As a result, during this latter period appellant's charges exceeded his five cent ceiling by \$25,956.20. It was also established that appellant's arrangements with location owners provided that he

pay 50% of the proceeds from a phonograph to the owner of the establishment in which that juke box was installed. Appellant maintained full control over the servicing of the machines and the collection of the charges.

Shortly after the complaint was filed, appellant moved to dismiss the suit (R. 10-20) on the ground that OPS regulations did not apply to the juke box industry and on other grounds unrelated to this appeal. In his answer (R. 21-22), appellant denied any violation of OPS ceiling price regulations and alleged that the Defense Production Act of 1950 did not authorize or empower OPS to regulate charges for appellant's business. At the pre-trial proceedings all issues of fact were resolved and the issues of law to be decided by the district Judge were narrowed to two: (1) Whether the juke box industry was subject to regulations under the Defense Production Act of 1950 as amended, and (2) whether CPR 34 established maximum lawful ceiling prices for that industry during the period of alleged violations.

In an oral opinion issued on June 30, 1954 (R. 29-30), the district court concluded that CPR 34 "was intended to and did regulate the maximum prices that may be charged by the operators of coin-operated music machines, and that such regulation is valid." The amount of overcharges was admitted to be \$25,956.20, and the Government had sought treble damages in its complaint pursuant to Section 409(c) of the Defense Production Act. The court determined, however, that "this is not a proper case for the imposition of treble damages," and awarded to the Government only 50% of the total overcharges (\$12,978.10), the amount that

appellant received from the operation of his machines after deducting the share paid to the owners of establishments where the juke boxes were installed.¹ The district court set forth its conclusions in greater detail in its finding of fact and conclusions of law (R. 30-35), and entered judgment for the Government on August 10, 1954 (R. 35-36).

QUESTIONS PRESENTED

1. Whether CPR 34, which controlled ceiling prices for services, properly applies to charges for the maintenance and operation of coin-operated music machines.
2. Whether portions of GOR 14, which exempted certain professional services from OPS regulation, removed the juke box industry from regulation during the period of the alleged overcharges here involved.

REGULATIONS INVOLVED

Pertinent parts of the General Ceiling Price Regulation (GCPR),² CPR 34,³ and General Overriding Regulation (GOR) 14⁴ are set forth in the appendix, *infra*, pp. 14-16.

SUMMARY OF ARGUMENT

Appellant's brief raises no objection to the validity of the OPS regulations involved but argues solely that

¹ There is some doubt as to the propriety of this ruling, in view of an official OPS interpretation which establishes that the person who controls the juke boxes and makes collections is the seller and is liable for the full amount of overcharges. But the Government does not raise that issue here.

² 16 Fed. Reg. 808, as amended, 32A C.F.R. 1451.

³ 16 Fed. Reg. 4446, as amended, 32A C.F.R. 732.

⁴ 16 Fed. Reg. 6664, as amended, 32A C.F.R. 1656.

these regulations did not establish ceiling prices for charges by coin-operated music machines. The identical issue is presented in the case of *Walt Schinkal v. United States* (now on appeal to this Court by the defendant juke box operator as No. 14313) and is considered in the Government's brief in that case at pp. 23-25. It is the Government's position in this case, as it was in the *Schinkal* case, that charges made by coin-operated music machines are prices for services controlled by CPR 34 and are not "prices or rentals for materials furnished for publication by any press association or feature service," so as to be excluded from regulation. The maintenance and operation of juke boxes are services as defined by CPR 34. And the clear intent of the "publication" exception was to avoid any interference with editorial expressions of thought or the freedom of the press. The fact that this exemption has no application to appellant's business is emphasized by an examination of the context from which the allegedly governing exemption is drawn and by the consistent interpretation of the administrative agency applying this regulation.

The inappropriateness of appellant's reliance upon GOR 14 as exempting the juke box industry from OPS regulation during the period of violations is considered in Point II, *infra*, pp. 12-13. The allegedly governing exceptions established by this regulation were intended to remove from coverage certain professional occupations, including professional entertainers and their managers. Neither the language of GOR 14 nor its rationale suggest that charges by coin-operated music machines would be exempt. This interpretation is fortified by reference to the administrative construction

of GOR 14, and by the fact that a special amendment to GOR 14 was later made, to exempt juke boxes from regulations, for a period after the time during which the overcharges here involved were made. With respect to both regulations the administrative interpretation can be determined by a consideration of other OPS regulations and official interpretations and by reference to two letters from the administrative agency set forth in the appendix, *infra*, pp. 17-24.

ARGUMENT

I

CPR 34 Did Apply to Charges Obtained by Coin-operated Music Machines

The OPS regulation which determines the ceiling prices for services, CPR 34, states that it "covers all services except" an enumerated few.⁵ "Services" are defined in Section 27 of CPR 34 [16 Fed. Reg. 4451, 32A C.F.R. 740]:

"Service" or "services" means any act or acts performed or rendered, otherwise than as an employee, for a fee, charge or other consideration. The term includes any privilege sold or granted, or any forbearance to act, for a fee, charge or other consideration. The term also includes the rental of any commodity or service if the rental charge is not covered by another ceiling price regulation and has not been exempted from price control.

The regulation was specifically applied, in official interpretations and releases, to charges for the use of frozen

⁵ CPR 34, Sec. 2 (a), 16 Fed. Reg. 4447, 32A C.F.R. 732, is set forth *infra*, p. 15.

food lockers,⁶ admission charges to professional baseball games,⁷ fees for children's summer camps,⁸ and charges by radio and television repairmen.⁹ At the time CPR 34 was issued, the Office of Price Stabilization suggested its scope of application in an official release [OPS Release 0-130, CCH, *Emergency Business Control Service*, Par. 70, 114]:

The Office of Price Stabilization today placed over \$10,000,000 worth of commercial and professional services furnished by more than a million establishments under a ceiling price regulation separate from the general price freeze of January 26.

The order also covers thousands of amusement and recreational facilities and industrial services with an unestimated volume of business

* * * * *

Countless trade and personal services, as well as charges and fees encountered daily by the general public, are affected.

Some of the everyday matters concerned are:

* * * * *

Bowling alleys, skating rinks, and golf fees
Admissions to amusement parks

⁶ CPR 34, Supplementary Reg. 6, 16 Fed. Reg. 11109, 32A C.F.R. 751.

⁷ CPR 34, Supplementary Reg. 11, 17 Fed. Reg. 820.

⁸ CPR 34, Supplementary Reg. 12, 17 Fed. Reg. 1184.

⁹ Price Order Questions and Answers-I, CCH, *Emergency Business Control Service*, Par. 70, 101.

A subsequent release restated the broad coverage of CPR 34 [OPS Release G-4, CCH, *Emergency Business Control Service*, Par. 70, 122]:

CPR 34 covers varied services. Included, for example, are:

- (1) Repairs and rentals on such things as autos, radios, and household appliances.

* * * * *

- (4) Miscellaneous services such as those offered by banks, parking lots, bowling alleys, golf courses, and banks renting safety deposit boxes.

It is also clear that the sale price of phonograph records was controlled.¹⁰ Finally, the application of CPR 34 to charges by coin-operated music machines is made even clearer by an official OPS interpretation which discusses who is liable for overcharges made for the use of juke boxes [CPR 34, Interp. 18, 85 Serv. 32: 200.3 (OPS Official Service)].

The facts disclose that X is the owner of automatic music machines, sometimes called juke boxes, which play a record or records when a coin is deposited in them; that he installs these machines, retaining title to them, in the business premises of cafe and tavern operators; that he makes periodic record substitutions, and repairs and services the machines; that he alone determines the price that will be required to operate the machines; that he takes possession of the coins deposited in the ma-

¹⁰ GCPR Supplementary Reg. 74, 16 Fed. Reg. 10782, 32A C.F.R. 1622 ("Ceiling Price Adjustment for Phonograph Records").

chines; and that the arrangement under which he installs the machines is that he will pay the premises operator a percentage, usually 50% of the coins deposited. The question has been raised as to whether on the basis of these facts the machine owner and the proprietor of the establishment may both properly be regarded as sellers of the music service to the public.

* * * *

Under these circumstances, the machine owner, and not the proprietor of the establishment, is the seller of the music service to the public.

In spite of all these facts, appellant contends that the district court erred in concluding that CPR 34 regulated charges by coin-operated music machines. The theory of his claim is that juke boxes come within the list of excepted industries provided by CPR 34. Of the exceptions listed in the regulation the one relied upon by appellant is "services exempted in the GCPR, as amended." Appellant contends that the GCPR exempts juke box operators as "publishers". That exemption stated in its context, excludes the following charges from regulation:¹¹

(c) Prices or rentals for:

- (1) Materials furnished for publication by any press association or feature service;
- (2) Books, magazines, motion pictures, periodicals, or newspapers, other than as waste or scrap;

¹¹ GCPR, Sec. 14, 16 Fed. Reg. 814, as amended, 32A C.F.R. 1460, is set forth *infra*, p. 14.

(d) Rates charged by any person in the business of operating or publishing a newspaper, periodical, or magazine, or operating a radio broadcasting or television station, a motion picture or other theater enterprise, or outdoor advertising facilities.

On its face, an argument that coins inserted into juke boxes are "prices or rentals for materials furnished for publication" seems highly questionable. It is true, as appellant suggests, that the word "publication" can have many different meanings in different situations; it is even conceivable that, in some sense of the term, phonograph records publish melodies. But the interpretation of this regulation depends on the meaning reasonably inferable from its wording, its context, and its apparent purpose. A fair reading of it would seem to require that the word "publication" be considered to relate to the preparation and issuance of newspapers, periodicals, and books. That conclusion is strengthened by the fact that the materials for publication must be furnished by a "press association or feature service." Once again, it is possible to consider appellant's business, by some use of the phrase, as a "feature service," but when "feature service" is used in connection with "materials for publication" its meaning is limited by popular understanding to syndicates or associations of cartoonists, columnists, news reporters, and the like. Expanding this inspection one step further, it should be noted that this entire subsection deals with sources of information and editorial comment, as does the subsequent subsection. It would thus be difficult to accept appellant's position which apparently suggests that

the exemption applies to all public entertainment. As indicated above, pp. 7-8, numerous forms of public entertainment were regulated. Charges for rentals of radios, and the sale price of phonograph records were clearly controlled, which facts alone would seem to destroy appellant's claim that juke box operators were exempt.

Any doubt as to the import of this exemption can be disposed of by considering the contemporaneous administrative construction of the regulation, as summarized in letters received from the Chief of the Interpretations Division of OPS and the Assistant Director of the Office of Defense Mobilization (the successor agency to OPS), set forth *infra*, pp. 17-24. These letters make it perfectly clear that CPR 34 was considered to be applicable to the juke box industry by the OPS and that such an interpretation was consistently applied by the OPS. That administrative interpretation should therefore be accepted since it is neither plainly erroneous nor unreasonable. Cf. *Bowles v. Seminole Rock and Sand Co.*, 325 U.S. 410; *Porter v. Crawford and Dougherty Foundry Co.*, 154 F. 2d 431 (C.A. 9), certiorari denied, 329 U. S. 720.

Thus far, only two courts have considered the question whether CPR 34 applied to juke boxes; they were the court below and the District Court for the Southern District of California in *United States v. Walt Schinkel*, *supra*. Both district courts agreed that the regulation was applicable and that the exception for publications had no relevance to coin-operated music machines.

II

GOR 14 Did Not Exempt Charges by Coin-operated Music Machines from Ceiling Price Regulations During the Period for Which Damages Were Awarded by the District Court

Appellant argues that if CPR 34 did regulate juke box charges, that industry was decontrolled by GOR 14 before the alleged violations took place.¹² He relies upon the exemption of the following professions from ceiling price regulation allowed by Section 3 of GOR 14: Actors and actresses; artists; athletes; entertainers; musicians; program elements (packaged production) furnished by independent contractors (packaged producers) for use in radio or television broadcasting or in a motion picture, theater or night club; sports officials; managers of actors, actresses, and athletes. It is significant that no reference is made to coin-operated music machines in that list of exempted professions, and we submit that no such exemption is implied by the exclusion of any or all of those occupations. The intent of these portions of the regulation was to exempt certain recognized *professional* persons whose services are unique and whose charges often depend upon their personal reputations. Ignoring this purpose, appellant attempts to equate entertainers with the entire entertainment field. Not only is this substitution without basis in the language of the regulation, but it is clearly contradicted by the other regulations and interpretations, discussed *supra*, pp. 7-8, which specifically applied to entertainment services after the issuance of GOR 14. The fact that appellant's activities resulted in entertainment for the public does not

¹² Juke boxes were subsequently decontrolled by an amendment to GOR 14, as discussed *infra*, p. 13.

make him an entertainer for the purposes of GOR 14. If such were the case, operators of bowling alleys, restaurants, golf courses, and other amusement or recreational facilities would be exempted; yet the charges made by such persons were clearly covered by OPS regulations. Further, appellant's construction of GOR 14 differs from that which was understood and applied by OPS, as suggested by the letters reprinted in the appendix, *infra*, pp. 17-24. That administrative construction of GOR 14 is also emphasized by the fact that it was later considered appropriate to decontrol juke boxes and a special amendment to GOR 14 was made.¹³ The contention that juke boxes provide entertainment and are therefore not subject to OPS regulations was posited by the defendant juke box operator in the *Schinkal* case and was rejected by that district court just as it was by the court below.

CONCLUSION

For the foregoing reasons, it is respectfully submitted that the judgment below should be affirmed.

WARREN E. BURGER,
Assistant Attorney General,
C. E. LUCKEY,
United States Attorney,
SAMUEL D. SLADE,
RICHARD M. MARKUS,
Attorneys,
Department of Justice.

¹³ GOR 14, Amendment 27, 17 Fed. Reg. 10858 (effective December 1, 1952).

APPENDIX A

Section 14 of the General Ceiling Price Regulation provides in pertinent part as follows [16 Fed. Reg. 808, 32A C.F.R. 1451]:

Exemptions and exceptions. This regulation does not apply to the following:

* * * * *

(c) Prices or rentals for:

(1) Materials furnished for publication by any press association or feature service;

(2) Books, magazines, motion pictures, periodicals, or newspapers, other than as waste or scrap;

(d) Rates charged by any person in the business of operating or publishing a newspaper, periodical, or magazine, or operating a radio-broadcasting or television station, a motion picture or other theatre enterprise, or outdoor advertising facilities;

* * * * *

Ceiling Price Regulation 34 provides in pertinent part as follows [16 Fed. Reg. 4446, as amended, 32A C.F.R. 732]:

Section 1. *What this regulation does.* This regulation removes most services from the coverage of the General Ceiling Price Regulation (GCPR) and brings them under this regulation. This regulation in general establishes the ceiling price of most services at the levels prevailing in the period December 19, 1950 to January 25, 1951, inclusive.

Section 2. Services covered. This regulation covers all services except:

(a) Services exempted in the GCPR, as amended;

* * * * *

Section 27. *Definitions and explanations.* (a) When used in this regulation:

* * * * *

(17) "Service" or "services" means any act or acts performed or rendered, otherwise than as an employee, for a fee, charge or other consideration. The term includes any privilege sold or granted, or any forbearance to act, for a fee, charge or other consideration. The term also includes the rental of any commodity or service if the rental charge is not covered by another ceiling price regulation and has not been exempted from price control.

* * * * *

Section 3 of General Overriding Regulation 14 provides in pertinent part as follows [16 Fed. Reg. 6664, as amended, 32A CFR 1656]:

Exceptions. (a) No ceiling price regulation now or hereafter issued by the Office of Price Stabilization shall apply to the rates, fees and charges for the supply of the services listed below and the services which fall within the scope of the occupations or categories listed below:

* * * * *

(2) Actors and actresses.

* * * * *

(5) Artists.

(6) Athletes.

* * * * *

(23) Entertainers.

* * * * *

(39) Musicians.

* * * * *

(51) Program elements (packaging^e productions) furnished by independent contractors (packaging^e producers) for use in radio or television broadcasting or in a motion picture, theater or night club.

* * * * *

(54) Sports officials.

* * * * *

(77) Managers of actors, actresses and athletes.

* * * * *

APPENDIX B

EXECUTIVE OFFICE OF THE PRESIDENT
Office of Defense Mobilization
Washington 25, D. C.

Office of the Director
Mr. Warren E. Burger
Assistant Attorney General
Department of Justice
Washington 25, D. C.

Re: Administrative Interpretation of CPR 34 and GOR
14 WEB:PAS:RMM—146-18-23-5

Dear Mr. Burger:

This is in response to your letter of March 10, 1955, requesting information with respect to the above, particularly as it relates to OPS ceiling prices for coin operated music machines.

The Director of Defense Mobilization has asked me to respond to your inquiry as this subject matter falls within my current responsibilities. Purely as a coincidence, I was Assistant Director for Price Operations during the life of the Office of Price Stabilization and in this capacity was conversant with the regulatory structure then applicable to coin operated music machines. In addition, I have examined the OPS files now on deposit at the Federal Records Center so that my answer to your questions would be precise.

There is no question that the charge of the aforementioned service was subject to price control from January 26, 1951, the effective date of the General Ceiling Price Regulation, to December 1, 1952, the effective date of Amendment 27 to General Overriding Regula-

tion 14. A copy of that Amendment and its statement of considerations is attached; you will observe that I signed the Amendment personally, in the capacity of Acting Director of Price Stabilization. These documents show on their face that coin operated music machines were subject to price controls until December 1, 1952.

Initially the controlling regulation was the General Ceiling Price Regulation until the issuance of a special regulation for services, designated Ceiling Price Regulation 34. The trade, both verbally and in writing, was repeatedly advised that CPR 34 controlled their operations. The files show, for example that on October 10, 1951, an OPS official so advised Mr. Harrison W. Call of 128 East 14th St., Oakland, California, in the latter's capacity as counsel for the California Music Guild. At no time did OPS ever rule or take a position that coin operated music machines fell within the statutory exemption of Section 402(e)(iii) of the Defense Production Act of 1950 for "materials furnished for publication by any press association or feature service, * * * or rates charged by any person in the business of operating or publishing a newspaper, periodical, or magazine, or operating a radio-broadcasting or television station, a motion-picture or other theatre enterprise * * *".

General Overriding Regulation 14 was a special regulation subsequently employed to identify those services for which ceilings were decontrolled or suspended. Until December 1, 1952, when this service was specifically exempted by Amendment 27, of GOR 14, it was the OPS position that they were under price control. This position was reaffirmed constantly by officials of the agency. The OPS files show that on August 23, 1951,

Mr. Harrison W. Call, of Oakland, California, filed a petition for price adjustment seeking decontrol on behalf of Music Operators of the America, Inc. A related petition was filed on September 21, 1951, by the California Music Guild. The files show and I recall that extensive consideration was given to these petitions, but that they were denied by Michael V. DiSalle, then Director of Price Stabilization, in a letter dated November 21, 1951, to the Music Operators of America, Inc.

Subsequently, on August 8, 1952, the same attorney filed a petition for decontrol on behalf of the California Music Guild, Inc. Similarly, on October 23, 1952, the Music Operators of America, Inc., by its own president filed an additional decontrol petition. The files show and I recall that there was disagreement among OPS officials as to whether this service should be decontrolled. Finally, by the attached Amendment 27 to GOR 14, effective December 1, 1952, this service was decontrolled as part of the Agency's plan to exempt controls on services as such controls became unnecessary because of changing economic conditions.

Finally, your letter inquires whether the Office of Defense Mobilization, as the successor agency to the Office of Price Stabilization, ever changed the aforementioned position. The brief answer to this is in the negative. The OPS went out of existence on June 30, 1953, and by force of law its parent agency, the Economic Stabilization Agency, was terminated on October 31, 1953. Pursuant to Executive Order 10494 of October 14, 1953, the Office of Defense Mobilization succeeded to most of the remaining price regulatory authority on November 1, 1953. You will understand that ESA and ODM would have little occasion to change

the OPS position with respect to a service decontrolled on December 1, 1952.

The major exception would be the granting of retroactive relief in the context of protest proceedings or direct complaint proceedings under Sections 407 or 408 of the Defense Production Act. However, I am advised by counsel that no protest involving this subject was filed during that period, and that the direct-complaint case instituted by Walt Schinkal was dismissed by the Emergency Court of Appeals on grounds making re-examination of the merits unnecessary. By this I do not mean to imply that ODM would reverse the OPS position; as a matter of fact your inquiry has led to an informal reconsideration of the matter. From this study it is perfectly clear that coin operated music machines were subject to price controls until December 1, 1952, the effective date of Amendment 27 to GOR 14, and no reason appears for the granting of further relief in the unlikely event that ODM is faced with this question on the merits.

I trust that this is responsive to your inquiry.

Sincerely yours,

EDWARD F. PHELPS, JR.,
Assistant Director for Stabilization.

ADDITIONAL EXCEPTED SERVICES**General Overriding Regulation 14 Amendment 27****TITLE 32A—NATIONAL DEFENSE, APPENDIX****CHAPTER III—OFFICE OF PRICE STABILIZATION
ECONOMIC STABILIZATION AGENCY****[General Overriding Regulation 14, Amendment 27]****GOR 14—Excepted and Suspended Services Additional Excepted Services****Coin Operated Amusement Machines**

Pursuant to the Defense Production Act of 1950, as amended, Executive Order 10161, and Economic Stabilization Agency General Order No. 2, this Amendment 27 to General Overriding Regulation 14 is hereby issued.

STATEMENT OF CONSIDERATIONS

This Amendment removes from price control fees and charges for operation of coin operated amusement machines such as juke boxes and other phonographs, skill games, strength-testing devices, and pinball machines.

This exemption applies only to machines operated for amusement purposes. It does not apply to charges for operation of machines which dispense any commodity, even though those machines may also be operated for amusement. For example, charges for operation of "claw machines" which may dispense articles of merchandise, are not covered. Moreover, charges for rental or maintenance of any coin operated machines are not included in this exemption action.

In the judgment of the Director, controls over the services exempted by this amendment are not required at this time in order to carry out the purposes of the Defense Production Act of 1950, as amended. Experience has shown that the administrative burden of retaining control over such service fees and charges is out of proportion to the benefits gained.

In the formulation of this amendment there was consultation with industry representatives, including trade association representatives to the extent practicable, and consideration has been given to their recommendations.

AMENDATORY PROVISIONS

General Overriding Regulation 14, as amended, is further amended by adding at the end of paragraph (a) of Section 3 a new subparagraph (114) as follows:

(114) Operation of coin operated amusement machines, including, but not limited to, phonographs, skill games, strength-testing devices and pinball games; provided, however, that this exemption shall not apply to the charges for operation of machines which dispense any commodity, whether or not such machines are also operated for amusement.

(Sec. 704, 64 Stat. 816, as amended, 50 U.S.C. App. Sup. 2154.)

Effective date. This Amendment to General Overriding Regulation 14 shall become effective December 1, 1952.

(S.) EDWARD F. PHELPS, JR.,
Acting Director of Price Stabilization.

DECEMBER 1, 1952.

March 14, 1955

Hon. Warren E. Burger
Assistant Attorney General
Department of Justice
Washington, D. C.

Attention: Paul A. Sweeney
Chief, Appellate Section

Dear Mr. Burger:

I have your letter of March 10, 1955 in connection with pending litigation against owners of coin operated music machines for alleged violation of OPS ceiling price regulations. You state that the defendants in these cases are contending on appeal that CPR 34, the OPS regulation dealing with services, did not apply to coin operated music machines, as the result of an exempting provision in Section 2 of that regulation. They also argue that, in any event, such services were exempt under GOR 14, under a provision exempting entertainers, managers of entertainers, etc.

I was Assistant Chief Counsel of the Office of Price Stabilization, in charge of the Interpretations Division, from the inception of controls in December, 1950 until the liquidation of the agency in 1953. In this capacity I had final responsibility for clearance and review of all interpretations issued under all OPS regulations. The Office of Price Stabilization consistently and at all times construed CPR 34 as covering coin operated music machines. Such charges were never regarded as exempt under any provisions of GOR 14 or any other reg-

ulation, until the juke box industry was specifically de-controlled on December 1, 1952.

Very truly yours,

(S.) JOSEPH ZWERDLING,
*Formerly Assistant Chief Counsel
and Chief of Interpretations Division,
Office of Price Stabilization.*

United States
COURT OF APPEALS
for the Ninth Circuit

CLIFFORD G. MARTIN, Doing Business as
Martin Music Company,

Appellant,

vs.

UNITED STATES OF AMERICA,

Appellee.

REPLY BRIEF OF APPELLANT

*Appeal from the United States District Court for the
District of Oregon*

HARRISON W. CALL,
409 Forum Building,
Sacramento, California;

RANDALL S. JONES,
JACOB, JONES AND BROWN,
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FILED

APR - 9 1955

PAUL P. O'BRIEN, CLERK

INDEX

	Page
Argument	1
1. The Appellant's business is specifically exempted from the application of Ceiling Price Regulation 34 by the provisions of the said regulation	1
2. If the prices for furnishing music by means of coin-operated machines were within the contemplation of the General Ceiling Price Regulation and of Ceiling Price Regulation 34, the said prices and such services were exempted from the provisions of the said regulation by General Overriding Regulation 14	5
Conclusion	6

TABLE OF AUTHORITIES

CASES

Armour & Co. v. United States, 102 F. Supp. 987 (Ct. Cls. 1952)	4
Bowles v. Simon, 145 F. 2d 334 (7th Cir. 1944)	4
Massy v. United States, 214 F. 2d 935 (8th Cir. 1954)	3

STATUTES AND REGULATIONS

Ceiling Price Regulation 34, 16 Fed. Reg. 4446, as amended 32A C.F.R. 732	1, 2, 4
Defense Production Act of 1950	2
General Overriding Regulation (GOR) 14, 16 Fed. Reg. 6664, as amended, 32A C.F.R. 1656	5

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REPLY BRIEF OF APPELLANT

*Appeal from the United States District Court for the
District of Oregon*

ARGUMENT

I.

**The Appellant's business is specifically exempted
from the application of Ceiling Price Regulation 34
by the provisions of the said regulation.**

In order for Appellee to arrive at the conclusion urged by it in its brief, it must ignore the meaning of the words of the very regulation which it asserts the

Appellant violated. The fact that Ceiling Price Regulation (CPR) 34 was specifically applied in official interpretations and releases to a myriad of services other than the type of service which the Appellant rendered is not material in this case. The distinction between charges for the use of frozen food lockers or charges by radio and television repairmen and the charge exacted by the Appellant as a price for the publication of his recordings in coin operated music machines is obvious. The former have such a direct bearing on the cost of living of most Americans that the application of price regulations issued pursuant to the Defense Production Act of 1950 to them is not subject to much reasonable controversy.

An even greater distinction exists—one which Appellee has ignored. The many services which are not involved here were in official interpretations and releases of the Office of Price Stabilization (OPS) specifically brought within the coverage of CPR 34. The so called administrative interpretation apparently relied upon by Appellee in this case is found in two (2) letters set forth in Appellee's brief on pages 17 and 23. Both letters were written in response to letters from the Justice Department dated March 10, 1955, which was after the service of Appellant's brief in this case on Appellee's attorneys.

Such *post facto* expressions of administrative interpretation do not carry weight and are entitled to no more consideration than the argument of Appellee's attorneys in this case.

In the recent case of *Massy vs. United States*, 214 F. 2d 935 (8th Cir. 1954), the court at page 940 stated:

"Certain so-called 'interpretations' of the regulation as applied to the controversy were urged upon the trial court as persuasive, if not conclusive. We think they did not have the usual attributes of interpretations. They were issued after this regulation ceased to be in effect and one of them was not issued until this action was being tried. They were not published in the Federal Register nor otherwise communicated to the defendant or other dealers similarly situated and cannot, we think, be accepted as reflecting an administrative practice.

. . . What is said by the United States Court of Appeals for the District of Columbia in *Fleming v. Van Der Loo*, supra, [160 F. 2d 912], is here peculiarly apposite:

"The Administrator's ruling here involved was in the form of a letter written in this particular case by a local enforcement officer. Technically it automatically became an official act of the Administrator by operation of a general procedural rule of his office. But it was not a published ruling, nor, so far as the record shows, was it public. It was not an administrative interpretation of long standing but was made after this controversy had arisen; was written two years after MPR 330 was issued, and was thereafter nullified by Amendment No. 5. Thus, it does not carry the great weight of presumptive validity which attaches to long-continued, consistent, published administrative rulings."

"These so-called 'interpretations', in the circumstances here disclosed, were entitled to no more weight nor persuasiveness than the argument of counsel appearing in the case."

Even official interpretations of the OPS are not binding upon this court. The argument that such an ad-

ministrative interpretation of a regulation was binding was made in *Armour and Co. vs. United States*, 102 F. Supp. 987, 990 (U. S. Ct. Cls. 1952), where the court said:

“The interpretation of a regulation or a statute is a proper function of this or of any other court.”

In *Bowles vs. Simon*, 145 F. 2d 334, 337 (7 Cir. 1944), Mr. Justice Minton then a judge on the Court of Appeals for the Seventh Circuit in writing the opinion stated:

“We do not accept the Administrator’s view that he may promulgate a regulation and then place on it an interpretation which becomes controlling on the courts. The Administrator has not grown to any such stature. The courts may consider his interpretations and follow them, if correct, but the court is not bound to follow them. . . .

“We think the District Court had a right to determine the meaning of these regulations for itself, although it could not, and did not, undertake to pass upon their validity. . . . Having made its own interpretation, the District Court was justified in rejecting the Administrator’s interpretation of these regulations.”

In the *Bowles Case* and in the *Armour Case*, the Court was considering official interpretations and not as here letters written by Appellee’s officials for the sole purpose of supporting Appellee’s case more than three (3) years after the alleged violations.

It is clear that the administrative interpretation of CPR 34 urged by Appellee is not binding upon this Court. Appellant has shown in his brief that his business was specifically exempted from the application of CPR 34.

2.

If the priees for furnishing music by means of coin-operated machines were within the contemplation of the General Ceiling Price Regulation and of Ceiling Price Regulation 34, the said prices and such services were exempted from the provisions of the said regulations by General Overriding Regulation 14.

Appellee has failed completely to answer Appellant's brief on this point.

Appellee once again urges an administrative construction which is supported only by the letters set forth in Appendix B of Appellee's brief, and which completely ignores the ordinary meaning of the words of GOR 14. Such an administrative interpretation relying as it does upon an unnatural and limited definition of ordinary words is both erroneous and unreasonable, and is clearly not binding on this court.

The distinction between the services rendered by those who rent their facilities for the active participation of their customers (such as operators of bowling alleys, golf courses, etc.) and one such as the Appellant who furnished music for the entertainment of the public is obvious, yet patently ignored by Appellee.

Appellant's discussion on the first point presented in this brief with respect to the persuasiveness of the administrative interpretations urged by Appellee is equally applicable with respect to the administrative interpretation urged by Appellee in the consideration of GOR 14.

As heretofore stated, such an administrative interpretation is entitled to no more weight than the argument of Appellee's counsel.

CONCLUSION

For the foregoing reasons the judgment of the trial court being contrary to the law should be reversed.

Respectfully submitted,

RANDALL S. JONES,
JACOB, JONES & BROWN,

By _____
Attorneys for Appellant.

